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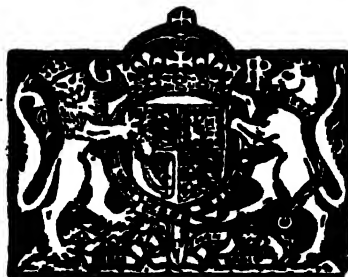
REPORT

of the

United Provinces Provincial Banking Enquiry Committee

1929-30

Volume I



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INTRODUCTORY.

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“India possesses a vast store of dormant capital awaiting development, and in order to make this available for investment banking facilities must be increased and extended. The examination of the various technical measures suggested in the replies with this object is outside the scope of the Committee, but we would emphasize the importance of a co-ordinated survey being undertaken at the earliest opportunity of the whole field of banking in India. This should be followed by a detailed examination by an expert committee or committees of the lines along which progress should be effected.”(1)

2. Soon after the External Capital Committee had reported, the Government of India invited the provincial governments to express their views on various matters connected with banking, and especially on the best method of surveying the whole field of banking. In the meantime the Royal Commission on Indian Currency and Finance had also reported. After an examination of the replies of the provincial governments and of the report, the Government of India came to the conclusion that the establishment of the Reserve Bank of India and its activities through its member banks would go far to remedy some of the major defects in the Indian banking system, and to improve banking facilities generally. They therefore thought it preferable to postpone further enquiry of the kind previously contemplated until some experience of the working of the Reserve Bank of India had been gained.

3. The Reserve Bank Bill, however, was rejected by the Legislative Assembly in February, 1928, and the question of a Banking Enquiry was allowed to rest for the time being.

(1) Report of the External Capital Committee, 1925, p. 15.

4. Both the Federation of Indian Chambers of Commerce and the Associated Chambers of Commerce revived the question at their annual meetings in December, 1928; and as a result of the discussions which ensued, the Hon'ble the Finance Member stated the broad position of the Government as follows :—

"The formation of a Central or Reserve Bank is desirable in order that India may be equipped with a mechanism for the control of currency and credit on the lines approved by modern experience. At the same time, the Government can only proceed subject to their being satisfied as to two conditions: first, that the organisation of the Bank is securely settled on sound lines, and secondly, that there is a measure of general support among the representatives of public opinion for the proposals. Full advantage should be taken of any interval which may occur before these conditions are fulfilled, and the time is again ripe for reviving the proposals for a Reserve Bank by inaugurating an enquiry into the general banking organisation of the country which is intimately connected with the question of a Central Bank. For a Central Bank is essentially the crown of the whole structure of banking in its widest sense, and if it is to be well designed to meet the practical requirements of the country, it must be adapted to the banking organisation of the country on which it should rest. Viewed from this angle, a banking enquiry will be of value in throwing light on the actual situation throughout the country and in instructing public opinion as to the main requirements."

5. *Procedure of enquiry.*—As regards the procedure of the enquiry it was recognised that a Central Committee was required to lay down the general lines of the enquiry, to direct it, and to collate its results. But as conditions vary greatly from province to province and in every province local knowledge is essential, the appointment of provincial committees was also considered to be necessary.

6. *Constitution of the Committee.*—Accordingly in consultation with the Government of the United Provinces, the Government of India announced on June 24, 1929, the appointment of the United Provinces Provincial Banking Enquiry Committee with the following members :—

(1) Mr. E. A. H. Blunt, C.I.E., O.B.E.,

I.O.S., Financial Secretary to the Government of the United Provinces ...

Chairman.

(2) Rai Bahadur Pandit Gursewak Singh
Upadhyaya, B.A., Deputy Registrar of
Co-operative Societies, United Pro-
vinces

*Co-operative
Re-
pert.*

- (8) Dr. Radhakamal Mukerjee, M.A., Ph.D.,
Professor of Economics, Lucknow
University *Indian Economist.*
- (4) Mr. B. T. Thakur, M.A., Chief Agent,
Central Bank of India, Ltd., United
Provinces *Representative of
Commerce.*
- (5) Babu Mohan Lal Sah, M.A., LL.B., of the
firm of Messrs. Durga Sah, Mohan
Lal Sah, Bankers, Ranikhet *Representative
Indigenous Banker.*
- (6) Rai Bahadur Babu Mohan Lal, M.A.,
LL.B., M.L.O. *Representative of
agricultural inter-
ests.*
- (7) Babu Lakshmi Das, B.A., of the firm
of Messrs. Girdhar Das Jagmohan Das,
Benares *Representative of
urban interests.*
- Dr. L. C. Jain, M.A., LL.B., Ph.D. ... *Secretary.*

7. *Terms of Reference.*—The subjects given to us for investigation are embodied in the following *Memorandum of lines of enquiry by Provincial Committees.*

"1. The Provincial Committees should make intensive surveys of one or two selected districts in each province and a general survey of the conditions in the province or areas as a whole in regard to agricultural and small industries with special reference to the fabric of finance. The details of the enquiries to be undertaken should be settled by the Provincial Committees themselves, but in order to facilitate tabulation of the results for all India, the following main heads under which the Committees should classify the information and material collected are laid down for their guidance. This should not be held to debar the Provincial Committees from investigating any special provincial features not covered by the heads below.

2. The main heads referred to above are:—

I.—AGRICULTURAL CREDIT.

(See in this connection Chapters XII and XIII of Agricultural Commission's Report.)

(a) Various items of permanent improvement to land. Credit facilities required and actually existing. Rates of interest and period of loans and other conditions. Part played by Imperial bank, joint-stock banks, co-operative banks and indigenous banks and bankers. Scope for land mortgage banks and for agricultural credit banks. Co-ordination of credit agencies. Review of system of Government loans and elimination of administrative defects.

(b) Credit facilities required for purchase of agricultural implements and seed and other expenses of production. Facilities actually existing. Rates of interest and period of loans and other conditions. Effect of borrowing on disposal of produce. Part played by different classes of banks and bankers.

(c) Present methods of marketing principal crops. Credit facilities required for financing of products during marketing. Part played by different classes of banks and bankers. Facilities for remittance. Use of negotiable instruments and scope for promotion. Reduction of duty on bills.

(d) Volume of agricultural indebtedness in province and the causes contributing to such indebtedness. Existing credit facilities for discharging debt. Part played by different classes of banks and bankers.

(e) Agricultural enterprises and other small industries in province, like dairy farming, gur factories, cotton ginneries, sugar refineries, etc. Possibilities of developing cultivation or of helping cultivator to get a better return by erection of such factories. Credit facilities required and actually existing.

II.—SPECIAL STUDY OF WORKING OF CO-OPERATIVE BANKS AND CO-OPERATIVE MARKETING SOCIETIES.

(See Chapter XIII of Agricultural Commission's Report.)

Extension of cooperation in direction of borrowing and lending on provincial scale instead of local units operating separately in watertight compartments. Relation with Imperial Bank and joint-stock banks. Present difficulties of financing co-operative societies both short and long term capital. Alleged competition of co-operative banks with joint-stock banks.

III.—SPECIAL STUDY OF INDIGENOUS BANKING.

Collection of available information regarding indigenous banks and bankers and their methods of doing business. Shroffs, large and small, who do not usually call themselves bankers, should be included in enquiry. Information should comprise capital, deposits, cash balance, terms of advances, establishment, clientele relation to agriculture, industry and trade, facilities required, relation to joint-stock banks and Imperial Bank, attitude towards some sort of governmental supervision and publicity, methods to secure stability and inspire confidence.

IV.—INVESTMENT HABIT AND ATTRACTION OF CAPITAL.

(1) Means or institutions in existence for encouraging investment habit. Postal cash certificates and postal savings banks. Classes of population who resort to such forms of investment and methods of attracting other classes. Alleged competition of Government with joint-stock banks. Existing facility for purchase and sale of government securities. Hilton-Young Commission's proposal for introduction of gold cash certificates.

(2) Growth of cheque habit. Effect on same of abolition of stamp duty on cheques. Other methods of promotion like payment of government servants and bank employees above, say, Rs. 100 by cheques.

(3) Branch banking and investment habit. Experience of Imperial Bank's new branches opened under agreement. Existing difficulties experienced by joint-stock banks in opening new branches.

8. *Preliminary work.*—The Secretary entered upon his duties on July 10, 1929, and proceeded with the preliminary work of organising the office, preparing a bibliography and collecting available literature on the subjects of enquiry. The standard questionnaire drafted by the Central Committee for the guidance of provincial committees^(*) was received on July 26, 1929.

9. *The questionnaire.*—The Committee first met at Naini Tal on August 7, 1929, to consider the questionnaire received from the Central Committee. This was simplified and sub-divided so as to make it possible to send different portions of it to different persons or bodies capable of giving useful information on subjects in which they were

(*) Appendix to this report.

interested. The questionnaire as simplified⁽³⁾ was issued on August 28, 1929, and altogether 1,615 copies were sent out. The questionnaire was also translated into Urdu and Hindi and published in the district gazettes.

10. *Intensive surveys.*—Under the Committee's directions, intensive surveys were carried out in three typical villages in each of the four districts of Benares, Basti, Partabgarh, and Muttra, and in four villages in the district of Meerut. The surveys in Benares, Basti and Partabgarh were conducted by Messrs. Devi Sahai Srivastava, M.A., Satya Prakash, M.A., and Puttoo Lal Bisaria, M.A., inspectors of the Co-operative department, under the direction of Rai Bahadur Pandit Gursewak Singh Upadhyaya, who was placed on special duty for this purpose for three months. The intensive enquiries in the villages of Muttra and Meerut were undertaken by Messrs. Brijendra Nath Bhargava, M.A., and Kunwar Bahadur, M.A., students of the Lucknow University, under Professor Mukerjee's guidance. Mr. Bhargava also submitted to the Committee an interesting survey of agricultural marketing with special reference to the methods and practices prevailing at Hathras. Professor Mukerjee was entrusted by the Committee with the survey of the arts and handicrafts of Lucknow. Messrs. S. N. Majumdar, Choudhury, M.A., and Ardhendu Bhattacharya, M.A., students of the Lucknow University, also carried out surveys of small urban industries in Benares and Lucknow under his supervision.

Other valuable surveys were made by post-graduate students of the Allahabad University, by members of the Allahabad University Village Service League and by a research scholar of the Allahabad University, whilst an excellent piece of work⁽⁴⁾ was done honorarily by a research scholar of the Aligarh Muslim University.

A number of notes on various subjects were also prepared by Dr. Mukerjee, Mr. Thakur, Babu Mohan Lal Sah, and the Chairman.⁽⁵⁾

11. *Tour.*—The Committee did not consider it necessary to make a tour themselves, but the Secretary was deputed to visit the principal towns, consulting leading bankers and collecting first-hand material on indigenous banking. The information thus gathered is published in the form of a note in our volumes of evidence.⁽⁶⁾

12. *Evidence.*—A large amount of evidence was received by the Committee. Two hundred and fifty-nine persons replied to the questionnaire of whom 142 were officials and 117 non-officials. The total number

(³) The simplified questionnaire is printed at the beginning of each volume of evidence.

(⁴) Evidence, vol. II, pp. 354 et seq.

(⁵) Evidence, vol. II, pp. 1 et seq.

(⁶) Evidence, vol. II, pp. 122—30.

of persons who gave oral evidence was 52, of whom 25 were officials and 27 non-officials. The Committee have published only a portion, though a large portion, of the evidence received. Our principal reason was that a very large number of witnesses confined their answers to the same part of the questionnaire and there was little or no difference in their answers. Repetition of the same information seemed valueless; and as the printed evidence is already considerable, further printing would have greatly increased the cost. For similar reasons we have in some cases printed only a part of a witness's evidence. The original evidence has, however, been preserved.

A very large part of the evidence consisted of brief and often monosyllabic answers to the various questions. Such evidence would have been unintelligible without constant reference to the questionnaire, and for that reason we have taken the liberty of rewriting these answers. Such rewriting has always taken the form of combining the question and the answer; and we can accordingly assert that in this attempt to make the replies to the questionnaire self-contained we have faithfully reproduced the intentions of our witnesses.

13. *Cost of enquiry.*—The cost of our enquiry amounts to Rs. 41,877, a sum exclusive of the appreciable assistance given, directly or indirectly, by the Provincial Government. Ours is the only provincial committee the Chairman of which has carried out the duties of that post in addition to his own. Again, our office staff consisted, with a single exception, of members of the Finance department of the provincial secretariat who carried on the work in addition to their ordinary duties. This has reduced the cost by a sum which we estimate at Rs. 40,252. The Local Government has further borne the cost of printing and stationery, has supplied free office accommodation and furniture, and the free services of certain staff, particularly the inspectors of the Co-operative department mentioned above. The contribution of the Provincial Government by direct payment or by causing their officers to do double work represents over 56 per cent. of the whole cost.

14. *Acknowledgments.*—We wish to express our gratitude first, to Sir Purshotamdas Thakurdas, then Chairman of the Central Committee, who paid us two visits, during one of which he was present at, and assisted in, the examination of some of our witnesses, and gave us both valuable guidance and much-valued encouragement; and to Mr. V. K. Aravamudha Ayangar, Secretary of the Central Committee, who kept us well supplied with information and gave us constant help. Secondly, our gratitude is due to the Government of the United Provinces and its officers. His Excellency Sir Malcolm Hailey himself

* showed great interest in our proceedings and even suggested to us particular lines of enquiry; and every officer, from heads of departments to naib-tahsildars and qanungos, whom we had occasion to ask for assistance gave it without stint,—generally, we fear, at the cost of considerable labour and inconvenience. Their help lightened our task to an extent which we alone can realise, and freely acknowledge.

15. Amongst a long list of officers, we desire to mention specially Mr. P. M. Kharegat, I.C.S., Registrar of Co-operative Societies, who not only supplied us with valuable evidence, but, being co-opted to our Committee, helped us to write our report: and Rai Bahadur Pandit Gursewak Singh Upadhyia, who was in charge of our intensive surveys. Finally, we wish to express our thanks to all those who replied to the questionnaire, carried out economic surveys, or came forward to give oral evidence.

16. *Staff.*—Dr. L. C. Jain, our Secretary, not only carried out his routine duties to our entire satisfaction, but, being himself an acknowledged expert in one of the principal subjects which we had to investigate, namely indigenous banking, made some valuable contributions both to our information and our report. Mr. R. S. Symons, I.C.S., whose services were lent to us by Government for a few weeks, gave us useful help by compiling material for one of the chapters of this report. Our office, under Mr. E. J. Callow, Assistant Superintendent in the Finance Department, worked throughout with commendable zeal,—notably Mr. Callow himself, who, as already explained above, was all through carrying a double burden.

CHAPTER II.

PRINCIPAL ECONOMIC FEATURES OF THE PROVINCE.

A.—*Rural.*

17. *Natural divisions.*—The United Provinces of Agra and Oudh may be divided into eight natural divisions, according to their peculiarities of geology, agriculture, language and ethnology. These divisions are as follows :—

(1) *Himalaya, West*, which consists of the Kumaun revenue division and the Dehra Dun district in the Meerut division, and contains both montane and submontane tracts. The submontane tracts consist of the Tarai and Bhabar in the Naini Tal district, the Bhabar in Garhwal district and an area lying below the foothills in Dehra Dun district.

(2) *Sub-Himalaya, West*, which consists of the five districts of Saharanpur, Bareilly, Bijnor, Pilibhit and Kheri, immediately south of the districts just mentioned, with large forest areas.

(3) *Indo-Gangetic Plain, West*, which includes the districts of Muzaffarnagar, Meerut, Bulandshahr in the Meerut division; the whole of the Agra division; Farrukhabad and Etawah in the Allahabad division; and Budaun, Moradabad and Shahjahanpur in the Rohilkhand division. It consists mainly of a sloping alluvial plain with no rock or stone near the surface of the soil, except some beds of nodular limestone (*kankar*).

(4) *Indo-Gangetic Plain, Central*, which contains the districts of Cawnpore, Fatehpur and Allahabad in the Allahabad division; the whole of the Lucknow division (except Kheri); with Fyzabad, Sultanpur, Partabgarh and Bara Banki in the Fyzabad division. It is, like the third natural division, composed of alluvial soil, except the three Allahabad tahsils lying south of the Jumna, which really belong to the fifth division.

(5) *Central India Plateau*. This consists of the Bundelkhand division of four districts, Jalaun, Banda, Hamirpur and Jhansi, lying south of the Jumna on the eastern slopes of the plateau. It is broken up by low rocky hills covered with stunted trees and jungle, which are outlying spurs of the Vindhya mountains. The "black cotton" soil of this division is very difficult to cultivate.

(6) *East Satpuras*. To this division the district of Mirzapur and the state of Benares alone belong. It can scarcely be correctly called a natural division, for of the district and state mentioned, the northern portion really belongs to the Gangetic Plain, the middle portion to the Vindhya Plateau, and only the area south of the Són belongs to the Satpura country. It is a wild, forest covered tract, broken up with

cavines, but, containing occasional alluvial basins surrounded by hills, which are the homes of the few really primitive tribes in the province.

(7) *Sub-Himalaya, East*. This division is a compact group of four districts, Bahraich, Gonda, Basti and Gorakhpur, between the Ghagra on the south and west, the Gandak on the east and the Nepal frontier on the north. The soil is mostly alluvial, and there are extensive tracts of forest in the north.

(8) *Indo-Gangetic Plain, East*, which includes the whole of the Benares division (except Mirzapur) and Azamgarh district, and lies mainly between the Ghagra and the Ganges. The soil is alluvial.

18. These natural divisions may be grouped into four well-defined major tracts from north to south, as follows:—

(1) The montane tract (division 1).

(2) The submontane tract (divisions 2 and 7).

(3) The Indo-Gangetic plain (divisions 3, 4 and 8).

(4) The trans-Jumna tract and its continuation after the junction of that river with the Ganges (divisions 5 and 6).

The general line of these four tracts is across the province from west to east.

19. *Soil classification*.—In the montane tract there are small patches of cultivation on the hill sides and in the valleys, where the soil depends on the rocks from which it is formed, and varies considerably from place to place. The soil of the main portion of the province is alluvium brought down by the rivers from the Himalayas which have effected the complete intermixture of the original detritus; the local variations are due to differences in the size of the particles rather than in chemical composition. The heavier particles were deposited first, forming the coarser soils of the northern and western districts, while the lighter were carried on to form the fine rich soils of the eastern plain. The agricultural community classifies the soil into sand (*bhur* or *balua*), loam (*domat*, *doras* or *rausti*), and clay (*matiar*), and gives the names of *pilia* to a light loam, and *usar* to the heaviest kind of clay, which is almost impermeable to water and uncultivable with the primitive implements at their command. There is also a cross-classification according to the distance from the village site. The cultivators give the name of *goind* or *gauhan* to the well-manured land near the *abadi* and call the outlying fields *barha* or *palo*; in some districts they also distinguish a middle zone (*manjhar* or *miyana*). The soil in the trans-Jumna tract is quite different and much less uniform; it is brought down by fluvial action from the Central India Plateau, and is called black cotton soil. The richer variety is known as *mar* and the lighter as *kabar*, and contains excep-

tional quantities of lime and sulphuric acid. It becomes waterlogged with too much rain, and so hard with too little, that it cannot be ploughed; in either case cultivation is impossible. Where the surface is uneven, as it always is in the neighbourhood of the smallest water-courses, erosion deprives the soil of its fertile constituents and turns it into *rakar*, a soil which has little more consistency or fertility than a gravel heap. In some parts of this tract a light loam called *parwa* is found similar to the main alluvium; but cultivation is generally difficult, and gives only a precarious livelihood to its followers.

20. *Habitations (villages and houses).*—The rural population lives in closely packed groups of houses, which with the surrounding fields make up the revenue *manzas*. No man lives, as an English farmer does, in a house of his own, surrounded by his fields, his barns and his stables. Every man lives within call of his neighbour, so that he may readily summon help if attacked.—a gregarious habit which seems to be a survival of the time when the countryside was not as peaceful as it is now, when a man did not care to travel alone after dark, and a *zamindar* took care to conceal his riches. In the western districts, which gained more recently the protection of an ordered government, few *manzas* have more than one inhabited site; but in the east of the province, which was the first to come under British administration, many small hamlets have sprung up around the central site. But even in these, as in the main *abadi*, there are no open spaces, houses are huddled together, streets are tortuous and narrow, encumbered with cows and calves and buffaloes. The house drains add their quota to the waste water which runs from around the wells, turning the lanes into quagmires.

21. The houses in Agra, Muttra, Bundelkhand and the hills are sometimes built of local stone, but in the greater part of the province the building material is burnt or sun-dried brick, mud or wattles. Most of the houses are laid out round a central courtyard, where the cattle are tied at night, and contain a living room, which is also the bedroom for the men, an inner room for the women, and a few small store rooms. The rooms are small and low without ventilation or light, except what may be provided by one or two tiny unglazed windows, which are instantly stopped up as soon as illness of any kind appears. Several families, offshoots of one joint family, often inhabit a single dwelling.

22. *Population and density.*—The area of the United Provinces of Agra and Oudh is 106,491 square miles, and its population 45,375,787 according to the figures for the census of 1921. The province is a little smaller than the British Isles, and has almost the same population. Of every thousand persons, 894 live in villages whereas in England and

Wales the number is only 207. Hindus predominate over other religions, constituting 87 per cent. of the population. Seventy-six per cent. of the total population of the province is engaged in agriculture, and most of these live in villages, so that the percentage of the rural population whose occupation is agriculture is about eighty-six per cent. Fifty-four per cent. of these are actual workers and the remainder are dependents; the average number of persons in a family for the whole province is 4·6.

23. The density of the rural population varies from 92 in Himalaya, West, to 648 in the Indo-Gangetic Plain, East. The following table shows these variations :—

				Whole district.	Rural areas.
Himalaya, West	..	..	..	101	92
Sub-Himalaya, West	..	..	..	399	341
Indo-Gangetic Plain, West	..	..	..	508	420
Ditto Central	..	..	..	528	477
Central India Plateau	..	..	..	198	175
East Satpuras	..	..	..	166	148
Sub-Himalaya, East	..	..	..	605	584
Indo-Gangetic Plain, East	..	..	..	711	648

These figures, however, are misleading, being based on divisional totals of area and population; they conceal the existence of wide variations of density *within* each division. In the following table⁽¹⁾ the figures are referable to much smaller (tahsil) areas.

Natural division.	Percentage of total area with density per square mile of—					
	Under 150.	150 to 300.	300 to 450.	450 to 600.	600 to 900.	Over 900.
Himalaya, West	85·4	14·6	..	..	..	..
Sub-Himalaya, West	..	22·6	43·0	26·7	4·6	3·1
Sub-Himalaya, East	..	..	15·3	36·8	47·9	..
Indo-Gangetic Plain, West	..	..	35·8	45·7	16·5	2·0
Ditto Central	..	4·1	22·0	50·7	17·6	4·7
Ditto East	..	..	..	16·6	75·5	7·9
Central India Plateau	18·6	76·8	4·6	..	..	..
East Satpuras	60·0	27·2	12·8	..	..	..
Total	16·3	13·7	19·8	29·0	18·9	2·3

24. With the help of this table it is possible to give a much clearer account of the distribution of density over the province.

(1) *Tracts with a density of under 150.*—This area falls into two parts: one in the extreme north and the other in the extreme south of

⁽¹⁾ This table is a simplified form of subsidiary Table II at page 25 of the United Provinces Census Report of 1921.

the province. Both consist of hill-country, more or less thickly covered with forest. The northern tract belongs to the Himalayan system, the southern to the hill system of Central India (Vindhya and Satpuras).

(2) *Tracts with a density between 150 and 300.*—This area also falls into two distinct tracts. The first consists of the unhealthy *tarai* country in the north along the Himalayan foothills, a large part of which is jungle; the rest lies in the south along the barren Vindhyan plateau and consists of Bundelkhandi country with its inhospitable climate and difficult soil. In the Central Plain the area consists of the southern tahsils of Allahabad which naturally belong to Bundelkhand. The area in the East Satpuras represents two tahsils of Mirzapur lying between the Ganges and the Son.

(3) *Tracts with a density between 300 and 450.*—This area falls into three separate divisions. The first lies in the submontane tract and consists of tahsils which, though thickly populated, also comprise large forest or *tarai* areas which reduce their total density. In the Indo-Gangetic Plain the area consists of certain tahsils in various districts which either have lost population as a result of severe outbreaks of disease during the last twenty years, or comprise large areas of precarious or uncultivable land. In the trans-Jumna tract the area consists of the best parts of Bundelkhand.

(4) *Tracts with a density of (a) 450 to 600 (b) 600 to 900.*—This large stretch of country consists of the southernmost parts of the submontane tract and the greater part of the Indo-Gangetic Plain, and amounts to 50·9 per cent. of the total area of the province. Its characteristics are good alluvial doab soils, a healthy climate, excellent irrigation and excellent crops. The tract with the higher density of the two differs from the tract with lower density only in degree. This tract represents the true mean density of the province, though the arithmetical average density of 430 is slightly less.

(5) *Tracts with a density of over 900.*—This area really belongs to the former tract, but its density is swollen by the presence of large and populous cities.

25. It is possible to describe the distribution of density on even broader lines than this. There is a tract along the northern border of the province of low density, which comprises the whole of the montane tract, the northern third of the submontane tract, and some of the northernmost tahsils in the Indo-Gangetic Plain. Immediately south of this there comes a tract of high density running from the western to the eastern border which comprises about two-thirds of the province, and the whole of the Indo-Gangetic Plain except a few tahsils of low density.

South again of the Indo-Gangetic Plain comes a second tract of low density which consists of the whole of the trans-Jumna tract and certain portions of the Indo-Gangetic Plain which lie near that river in the districts of Muttra, Agra, Etawah, Cawnpore and Fatehpur.

In short, the province is composed of three tracts; one of low density running along two-thirds of the northern border, another of low density running along the whole of the southern border, and a tract of high density lying between the two.

26. There is a distinct correlation between density and cultivated area; the density figures vary, with one unimportant exception, directly as the percentage of gross cultivated area to cultivable area. This correlation is certainly causal: the more population increases, the larger must be the cultivated area which supports it. And as density increases so must the cultivated area increase, until the limit is reached where expansion is no longer possible. At that point, if meanwhile other means of livelihood have not been developed, density will be determined by the agricultural conditions, of which the most important is the cultivated area. For our present inquiry the important question is whether that point is yet in sight. On this matter certain figures taken from the Census Reports of 1911 and 1921 will shed light. (It should be explained that by "gross cultivated" is meant "net cultivated *plus* double cropped.") (2)

Natural division.	1911.			1921.		
	Density.	Percentage of gross cultivated to cultivable area.	Percentage of cultivable area still available.	Density.	Percentage of gross cultivated to cultivable area.	Percentage of cultivable area still available.
Sub-Himalaya, West ..	437	101.4	14.0	399	98.7	14.8
Indo-Gangetic Plain, West	538	103.9	9.3	508	103.7	10.1
Indo-Gangetic Plain, Central	550	105.5	9.5	528	109.0	8.9
Central India Plateau ..	211	77.9	24.5	198	83.3	23.0
Sub-Himalaya, East ..	586	118.2	7.9	605	122.0	4.0
Indo-Gangetic Plain, East	706	107.2	11.2	711	110.8	10.1

(2) These tables come from the Census Report of 1911, page 16, and Census Report of 1921, page 17. The figures of cultivable area have been worked out from the subsidiary table 1 at the end of Chapter I in each report. The method of calculating the cultivable area is explained on pages 18 and 19 of the report of 1911.

These figures suggest that in Sub-Himalaya, West, and Central India Plateau the cultivable area still available is larger than in any other division. But these figures are certainly exaggerated. In Sub-Himalaya, West, a part of the cultivable area lies in tracts so unhealthy that cultivation there cannot be permanent. In the Central India Plateau the land classed as "cultivable waste" always includes a large area covered by the weed known as *kans*, which remains barren for years together until the weed disappears. After allowing for these factors, it is safe to say that the area still available for cultivation does not exceed 11 per cent. in either of these two divisions. Ten years ago, after a decade in which the provincial population, as a result of disease (mainly the influenza epidemic of 1918), had fallen by 2.5 per cent. the cultivable area still available was nowhere more than 11 per cent., and in Sub-Himalaya, East, was as low as 4 per cent. of the total cultivable area. To-day ten years later, after a decade which compared to the two last has been reasonably healthy, the available area must have become much smaller, whilst in Sub-Himalaya, East, the point where further expansion is impossible must nearly have been attained.

27. *General condition of agriculture.*—With the arrival of the first rain in June the land is ploughed and sown with rice, millets, maize and cotton, which are harvested between August and December. In a normal year they are not irrigated. Meanwhile, preparations have been going on for the sowing of the cold season crops, wheat, barley and pulses, which are sown in October to December and reaped in April. The fields lie empty for a couple of months, until it is time to start the process once more. Sugarcane has a season of its own, being planted in January to April and harvested in the following December to March. The cultivator looks to the rains crop for his food, and to the winter crop to provide him with money to pay his rent and his debts, marry his children and buy him a few small luxuries. The winter crop is usually irrigated.

28. The country plough is substantially a wedge of wood with an iron cutter in front and merely stirs the soil without inverting it; the land is ploughed and then the soil broken up with a harrow in the form of a cylinder or heavy beam of wood; it is again ploughed and again harrowed. When this process has been repeated a number of times, which number depends on the crop to be sown, the ground is thoroughly but not deeply tilled. The process is expensive owing to the length of time required, and uncertain because its success is dependent on rain at the correct time, but iron ploughs or motor tractors are used in only a very few places in the province. Weeding and hoeing is done with ordinary hoes or sickles.

29. The ploughs, like the wells, are worked by bullocks or buffaloes, which are often sold in April, because the cultivator is unable to afford to keep them during the two months when his fields lie empty. There is little controlled breeding; most of the cows are served by the bulls which from religious sentiment are turned loose to wander at will around the village. Religious sentiment also prevents the killing of old and worn-out cattle, which are merely a drain on the resources of their owners, although even the oldest must at times do a share of work to rest the stronger cattle. To feed these animals fodder crops must be grown, for grazing land is insufficient throughout the thickly-populated Gangetic Plain.

30. Every good cultivator knows the value of good seed, but in a bad year he is probably unable to purchase the better varieties, and so is obliged to sow inferior seed or cultivate a less remunerative crop. New varieties and better classes of seed for wheat, sugarcane and cotton are now being supplied by the Agricultural department, as a result of which the outturn of these crops in the districts where they are sown has increased enormously. In bad times seed is also distributed as *tagati*,—for instance, when the wheat crop was recently ruined by rust in Bundelkhand and when in Gonda the rice crop of 1928 failed from drought.

31. Certain crops are manured, but the customs of the people are against the use of the natural manure of a closely-populated country, while the very valuable cattle manure is used as fuel.

32. Thus agriculture is still backward and its methods are primitive. It is incorporating modern ideas and developing improved methods of cultivation, but progress is very slow.

33. *Rainfall and irrigation.*—The province gets its monsoon rains between June and October, with winter rains in late December or early January; in normal years the rainfall from October to June is only a few inches. The monsoon rain may come either from the Bombay or Bengal currents, and usually reaches these provinces in the end of June or beginning of July. The annual rainfall decreases from the north and east where it is sometimes as much as 50 inches, towards the west and south where it is usually between 25 inches and 30 inches. Winds carry the rain clouds to the foot of the hills where the colder atmosphere increases the precipitation; and places like Naini Tal and Mussoorie may get 100 inches.

34. The *kharif* crop is sown in June and in a normal year is grown without irrigation, but the success of the *rabi* crop depends entirely upon a sufficient supply of water during the cold weather. Nearly one-

third of the total cultivated area of the province is watered, and nearly one-half of this area is supplied with water from wells. Most of the methods employed for raising the water are extremely primitive; one of the most common is as follows. A leather bucket holding from 18 to 25 gallons is fastened to a rope which passes over a pulley and is attached to two bullocks. To raise the bucket the bullocks walk down a ramp, when the bucket automatically rises, and the water is tipped into a channel. The bullocks then walk up the incline, and the bucket descends to fill once more. In parts of Jhansi and Saharanpur a Persian wheel is used, and in some districts a lever (*dhenkli*); this is a long pole weighted at one end and pivoted near that end, with a small earthen bucket attached by rope to the other, and worked by one or two labourers. This last method is only practicable when the water is not more than twelve or fourteen feet below the surface.

35. Water is raised from *jhils*, tanks and streams with a swing basket of plaited leather or bamboo strips. Two men swing the basket; they dip it into the stream and throw the water on to a higher level. Water can only be raised a few feet at a time in this way, and sometimes the process is repeated in terraces, if the water has to be raised to a high level.

36. One-eleventh of the cultivated area or three million acres is irrigated from canals. The most important of these are the Upper and Lower Ganges, the Eastern Jumna, the Agra and Sarda canals. In the south-west of the province irrigation is mostly from artificial reservoirs supplemented by the Ken and Betwa canals. With the completion of the Sarda canal all the rivers of the province have been tapped, and no further supply of water can be expected from them. In the north-west of the province a scheme is being developed to generate electric power from the falls on the Ganges canal; the power will be available for pumping water from wells.

37. *Principal crops.*—The staple food-grains are gram, wheat, barley, rice, *juar*, *bajra* and maize. Of these the first three are *rabf* crops and the remainder belong to the *khariif*. There are many varieties of rice, but the principal distinction is made between those sown broadcast, on ground thoroughly soaked by rain, and those grown in nurseries and transplanted into fields on which water is retained by low embankments. The finer varieties of rice are all thus transplanted. *Juar* and *bajra* are millets sown when the rains break and harvested in November. They usually follow wheat or some other winter crop, and are seldom sown alone except for fodder; the usual mixture is *arhar* and one or more of the creeping autumn pulses. Maize is one of the

earliest crops sown; it is grown after almost any winter crop, and being harvested in August is usually followed by another winter crop. Wheat is grown in the winter, usually after a rains crop in the preceding year. In the greater part of the province, wheat land lies fallow for about eleven months, is frequently manured, and is irrigated two or three times. Gram is grown alone or mixed with barley, and frequently follows rice or an early autumn crop in the same year. Barley may also be mixed with peas and occasionally with wheat, when it follows the rotation of that crop.

38. These seven crops between them occupy 70 per cent. of the total cultivated area. The principal subsidiary foodcrop is *arhar* which is sown mixed with *juar*, *bajra*, and sometimes cotton. It is sown when the rains break and remains on the ground after the other crops have been reaped till the end of April; its special importance in rotation is due to its value as a "host-plant" for the nitrogen-fixing micro-organisms. Numerous small millets such as *kodon*, *saran*, *marua* are sown in the rains with the object of replenishing stocks of food at the earliest possible moment; they usually mature by the end of August. Gourds, cucumbers, melons, yams, buckwheat, *singhara* and *brinjal* are all grown to augment the food supply.

39. The most important oilseeds are *til* or sesame, mustard or rape, linseed and castor. *Til* is sown by itself on a large scale in Bundelkhand, and in the submontane districts as a rains crop; but all over the province it is mixed with the ordinary rains crops, each cultivator sowing enough for his own needs. Linseed is grown alone in the same tracts, but in the rest of the province forms a border to wheat fields, or is sown in lines through gram. Rape is sown in lines through fields of wheat, barley and gram. Castor is grown mainly as a border to sugarcane or mixed with rains crops.

40. Cotton is the most important fibre, and is grown as a rains crop without irrigation, unless canal water is available, when it is sown before the monsoon breaks, and irrigated. Hemp is frequently grown as a border to other rains crops, and also alone, because it prepares the ground for sugarcane. The outturn of the latter crop has been considerably improved during the last few years by the introduction of new varieties from Java and Coimbatore; and it is now one of the most important crops in the north-western districts of the province.

41. *System of land tenure.*—It is probably a safe assertion that in early times the idea of ownership of land was unknown in India. There were groups of cultivators owing allegiance to a chief or raja, to whom they paid a share of the produce; in return he protected them

from robbers and maintained law and order. It is recorded in a memoir of Alauddin Khilji that about 1300 A.D. there was some kind of revenue-collecting organisation; the rajas had either been deposed and replaced by servants of the Muslim government, or else they had submitted to the new order and consented to pay to the Sultan a part of the contribution which they received from their cultivators. Thus a third person had been introduced who received a share of the produce of the land; where previously had been only the state and the cultivator, there were now the state, the *zamindar* and the cultivator. Out of this system of collection sprang numerous abuses, which were to a large extent stamped out under Akbar, who organised a very complete system of revenue collection by subordinate officers, on which the modern system is based. But it could only be successful under a strong ruler. During the period of anarchy which followed the decline of the Mughal Empire the intermediaries between the producer and the state, freed from supervision, set about to line their own pockets. They collected the utmost the cultivator could pay; they allowed no margin of profit for expansion or improvement; and, as all increased profits went to the intermediary, the tenant naturally expended little energy on the cultivation of the land.

43. Such was the state of affairs at the advent of British rule. The East India Company needing money to meet its commitments for the administration of the newly-acquired country adopted the traditional system of land revenue; but opinions differed regarding the person who should pay it. Some favoured an adaptation of the English landlord system, when "enlightened landlords" would devote themselves to the good of their tenants and become themselves a loyal "landed aristocracy;" others held that it was better to settle directly with the cultivator, to eliminate the middleman, and to establish a "hardy yeomanry" directly responsible to Government. In districts where the former theory held sway the claims of the *zamindars* were recognised, and if there were several claimants, the one who offered to pay the highest revenue was chosen. Those who favoured the latter theory only recognised *zamindars* with indisputable claims to the right of collection, and wherever possible settled direct with the cultivator. Thus two systems of settlements, *zamindari* and *rayyatwari*, grew up side by side. And from a class of revenue collectors was created a class of landlords.

44. Oudh was not acquired until British rule had been established for many years in the North-West Provinces. After the Mutiny all estates were confiscated, but as the landlord theory had by then been

generally accepted, most of them were returned to their owners, the *taluqdars*. Rights, however, were also secured to a large number of under-proprietors, who were mostly revenue-collecting agents of the *taluqdars*. In short, the principal change introduced in the traditional land revenue system by British administration was the creation of a class of landlords where no conception of ownership in land seems previously to have existed.

44. In practice the single *zaminidar*, paying revenue for a single revenue unit (*mahal*), is comparatively rare. Such a holding would be called *zamindari wahid*. If the *zaminidar* leaves four sons, who agree to hold the *mahal* jointly, the tenure becomes *zamindari bilijmal*. On the other hand, they may decide each to administer his own share, in which case a partition will take place which may take one of several forms. If it is possible to divide the *mahal*, each share becomes a separate *mahal*. If the shares are specified but the co-sharers remain jointly responsible for the land revenue, then the *mahal* is held in "perfect *pattidari*;" if, as often happens, parts of the *mahal*, such as the inhabited site, remain joint property then it is held in "imperfect *pattidari*." After several such subdivisions the shares may become extremely complicated. Another type of *mahal* is called *bhoiachara*, in which each co-sharer holds, not a specified though undemarcated fraction of the whole *mahal*, but a definite area consisting of definite fields. All these rights are recorded in the *khevat* or record of proprietary rights.

45. Before the advent of British rule there were few tenancy problems, because there was sufficient unoccupied land to make the cultivators independent; if they were treated harshly by the *zaminidar*, they went elsewhere. But with the establishment of a settled government population increased and competition for land became acute. It then became necessary to afford some legal protection to the tenant against the landlord, and a series of enactments were passed both in Agra and Oudh, of which the latest are the Agra Tenancy Act of 1926 and the Oudh Rent Act as amended in 1921. The object of all this legislation was to effect a compromise between the conflicting interests of landlord and tenant and to provide the latter with a tenure sufficiently secure to make it worth his while to expend time and money on the improvement of his holding.

46. *The rights of cultivators.*—There are five principal classes of cultivator, namely, the proprietor, the inferior proprietor, the superior tenant, the ordinary tenant, and the subtenant. Their rights are briefly described below.

47. *Proprietors*.—The right of a proprietor in the soil which he cultivates depends on whether the land is classed as *sir* or *khudkasht*. *Sir* in common parlance is land universally recognised as the peculiar property of the landlord, held in severalty and with unrestricted rights. *Khudkasht* is simply such land as he may happen to be cultivating at any particular time. Under the Tenancy Act of 1926, however, the term *sir* was extended to include not only *sir* proper but all *khudkasht* of at least twelve years standing at the beginning of 1902; all land which was actually *khudkasht* in the year 1925, being the year before that in which the Act came into force; and all land continuously cultivated by the landlord for a period of ten years commencing at any time after the Act came into force. There are, however, certain restrictions on the total area which may be held as *sir*. There is a similar provision in the Oudh Rent Act of 1921. The *sir* right is not transferable except by inheritance or gift; if, for instance, a property is sold, the *sir* of the vendor does not become the *sir* of the vendee, but remains in the vendor's possession as an exproprietary tenant, described below.

48. *Inferior proprietors*.—The existence of inferior proprietors is generally due to historical causes. They are most numerous in Oudh. It was found that in many *talugdari* estates there were persons with subordinate but transferable rights in the village; elsewhere there were village communities with similar rights. In other cases the members of some community, usually one of the higher castes, though possessing no rights over the village as a whole, did possess a transferable right in the land which they cultivated. The first of these were held to be under-proprietors; the third were decreed to be so; with the second class a sub-settlement was made, with the result that, except for the fact that they pay rent to the *talugdār* instead of revenue to Government, they have all the rights and privileges of proprietors. They are distinguishable from tenants in that their rights are transferable; they cannot be ejected for arrears of rent, and their rents cannot be varied during the currency of a settlement. The first and third of these are called *mataha'dars*; the second are called *pukhtadars*.

49. Early settlement officers also found inferior proprietors in the Agra province; but for the most part they ignored the superior proprietor and settled the land direct with the inferior proprietors. Sometimes, however, the inferior proprietor had to pay to Government, in addition to the land revenue, a further sum called *malikana*, which was then paid over by the Government to the superior proprietors.

50. In the permanently-settled districts in the east of the province there are certain tenants known as permanent tenure-holders and

fixed-rate tenants who are akin to inferior proprietors in all important respects. These tenures date from the permanent settlement of 1795.

51. *Superior tenants.*—In Agra there are two kinds of superior tenants, the occupancy and the exproprietary. The right of occupancy was created by the Tenancy Act of 1859, which laid down that all tenants who have cultivated land continuously for twelve years should have an occupancy right in that land. The law has subsequently been modified, but until the last Tenancy Act of 1926 the general principle was maintained. Under the new Act the occupancy tenants are either those who already have obtained occupancy rights by continuous cultivation under the old Act, or tenants on whom the landlord confers the right. The accrual of the right by continuous cultivation has now disappeared. The exproprietary tenant is an occupancy tenant of a particular kind. When a proprietor transfers his land otherwise than by gift or exchange he acquires a right of occupancy in his *sir* and *khudkasht* at a favoured rate of rent and is then known as an exproprietary tenant. Both these tenures are heritable but not transferable. They also enjoy a certain measure of protection in the matter of ejectment or enhancement of rent.

52. In Oudh there are various kinds of occupancy tenants:—

- (1) At the first regular settlement of 1866 proprietors who had been dispossessed within the 30 years preceding the annexation in 1856 were given occupancy rights in the land that they cultivated, and are entitled to hold at a favoured rent which can be enhanced after five years.
- (2) Certain other persons with superior claims were given decrees allowing them to hold their land at reduced rents and to be free from enhancement except at settlement.
- (3) There are in Oudh certain tenants holding heritable but non-transferable leases. All these are classed as occupancy tenants, but the area which they hold is small and, as a class, they are comparatively unimportant. There are, however, exproprietary tenants in Oudh of the same type as in Agra.

53. *Ordinary tenants.*—The Oudh Rent Act of 1886 created a class of statutory tenants who were entitled to retain their holding without disturbance or enhancement of rent for seven years from the date of ejectment from their holding or other variation in their rent. By the Oudh Rent (Amendment) Act of 1921 all statutory tenants were given the right to retain their holdings for life, and the heir of such a tenant was given the right to remain in possession of the holding for five years after his predecessor's death. Enhancement is possible only at settlement and in every tenth year after settlement. But the enhancement

is limited by rates specially fixed under the law. If a statutory tenant refuses to pay the rent thus enhanced he is liable to ejectment.

54. In Agra the new Act of 1926 has created a class of statutory tenants similar to that in Oudh. This type of tenant possesses a life tenancy which passes to his heir for a period of five years. The rent can be enhanced in the same way as in Oudh, but only at intervals of twenty years. The non-occupancy tenants, who formerly formed an important class in Agra, have now practically disappeared.

55. *Subtenants.*—The subtenants enjoy no rights save that they are allowed to hold their land for one complete agricultural year. Generally they pay high rents for small holdings.

56. *Nature and size of holdings.*—The total area cultivated annually in the province is 35 million acres. Out of the total population of 45½ millions, some 35 millions depend primarily or solely on agriculture for a living—one human being per acre. Of these nearly 30 millions actually occupy land and cultivate it. There are in addition another 1½ million of people to whom agriculture is a subsidiary occupation. Of these half a million are cultivators, making a total cultivating population of 30½ millions, or 6,600,000 families. Of these a considerable number, which may be put at 5 per cent. of the whole, are mere allotment holders,—village artisans and menials, agricultural and general labourers and petty rural tradesmen,—who cultivate a field or two in their spare time. The total of these allotments can scarcely be higher than 300,000 acres. If we exclude these allotment-holders and their allotments, then the average holding over the whole province per cultivator is almost exactly 5½ acres. Holdings, however, vary greatly in size in different parts of the province; their average is as high as 12 acres in Bundelkhand, and as low as 3½ acres in some of the eastern districts. Excluding the four districts which lie wholly or partly in the Himalayas, the province can be divided into five tracts according to the size of the average holding.

(1) *Southern tract.*^(*)—This corresponds to the natural division of the Central India Plateau, and consists of the four districts of Banda, Hamirpur, Jalaun and Jhansi. The average holding is between 10½ and 12 acres.

(2) *Western tract.*—This tract consists of two districts in the natural division of Sub-Himalaya, West, and six districts in the Indo-Gangetic Plain, West—namely, Saharanpur, Bijnor, Muzaffarnagar, Meerut, Bulandshahr, Aligarh, Muttra, and Agra. The average holding in this tract is between 8 and 10½ acres.

(*) These areas are taken from a table in the report on agriculture prepared for the Royal Commission in 1926, pages 106 and 107. The figures, however, have been modified to correct an error in the original calculation.

(3) *North Central tract*.—This consists of ten districts all lying north of the Ganges up to the northern border. The districts are Moradabad, Budaun, Pilibhit, Shahjahanpur, Sitapur, Hardoi, Bara Banki, Gonda, Bahraich, and Kheri. The average holding is between 6 and 7 acres. To this tract may be added Bareilly, though its average holding is slightly smaller ($5\frac{1}{2}$ acres).

(4) *South Central tract*.—This tract consists of twelve districts, four in the western and the rest in the central Indo-Gangetic Plain. The districts are Etah, Mainpuri, Farrukhabad, Etawah, Cawnpore, Fatehpur, Allahabad, Mirzapur, Lucknow, Unao, Rae Bareilly, and Sultanpur. The average holding is between 5 and $5\frac{1}{2}$ acres.

(5) *Eastern tract*.—This consists of nine districts, two in Sub-Himalaya, East, one in the central and five in the eastern Indo-Gangetic Plain. The districts are Partabgarh, Basti, Gorakhpur, Jaunpur, Benares, Ghazipur, Ballia, Azamgarh, and Fyzabad. The average holding lies between $3\frac{1}{2}$ and $4\frac{1}{2}$ acres.

57. *Subdivision of holdings*.—In Bundelkhand, from time to time large areas become covered with the weed called *kans* and then go out of cultivation altogether for a considerable period. And as a result, there is generally a large area of fallow land in every holding. The soil, too, is difficult to work and far less fertile than in other parts of the province. A twelve-acre holding in Bundelkhand is worth no more than a six-acre holding anywhere else. It follows, therefore, that save in the eight western districts, the average holding is small. The cause of this is a process of subdivision which is principally the result of the laws of inheritance, though its effect is increased partly by voluntary transfers *inter vivos*, partly by keen competition for land. The farm, as it passes from father to son, automatically decreases. For instance, a twelve-acre holding belonging to a man who has four sons will be divided at his death into four three-acre holdings, each belonging to one of the sons. If in the next generation, there are six grandsons of the original holder, there will be six holdings of two acres. But if one of the four sons has died childless and has sold his three acres, then there will be six holdings of $1\frac{1}{2}$ acres belonging to the six grandsons, and one three-acre holding belonging to a stranger.

58. If the process of subdivision described above is carried far enough, then the holdings which are subjected to it will ultimately become too small to support the holders and their families at the standard of comfort to which they are accustomed; and the holdings, in the accepted phrase, will become "uneconomic." The cultivator must then acquire fresh land or else reduce his standard of comfort. If he does neither (and both contingencies are unlikely), he will find himself unable

to work his holding even in a good year except at a loss; whilst in a bad year he will be on the verge of starvation. In either case, he must borrow; and since he has little or no hope of ever being able to repay, he will become more and more involved, until at last he is sold up and joins the ranks of landless labourers. It becomes important, therefore, *firstly*, to determine, if possible, the point at which a holding becomes uneconomic; and, *secondly*, to ascertain what proportion of holdings in the province are below, and what proportion are above, that point.

59. *The economic holding of the province.*—It must first be made plain that in this discussion no great measure of precision is possible. The question whether any particular holding can or cannot support its owner and his family in the comfort to which he is accustomed is always a question of fact, the answer to which will vary according to the circumstances of each particular case. It will vary, *firstly*, according to the nature of the holding itself; a holding which is economic in Meerut, will certainly be uneconomic in Bundelkhand. It will vary again according to the skill of the cultivator, and the amount of attention and labour which he gives to his cultivation; a Brahman would starve on a holding that is more than sufficient to support a Koiri. It will vary yet again according to the standard of comfort to which the cultivator is accustomed; three acres may be ample for a Chamar, thirty acres may not be enough for a Rajput. In brief, the point at which a holding becomes uneconomic is not fixed but movable. Nothing more is possible than to work out a complete set of "average," or typical, economic circumstances, and to fix a point in relation to them. This would have been a laborious task, involving a number of complicated calculations: fortunately, we found that the work had recently been done, and we have used its results.

60. In 1926 a report on the agricultural conditions of the province was prepared for the use of the Royal Commission which dealt with all the principal problems likely to come under their review. One of the chapters^(*) which describes "the economic position of the cultivator," contains a number of calculations relating to such matters as the typical cropping of a typical holding; the normal yield of such a holding; the normal value of such yield; and the normal expenditure of the cultivator. On the basis of these figures, the author also has calculated "the minimum holding necessary to support a cultivator and his family,"—in other words, the minimum economic holding. Finally, he has compared this economic holding with the average holding, which he has obtained by calculating from the census returns the number of cultivators' families

(*) Chapter XXVI.

and dividing the total holdings area by that number. All these calculations have been worked out for four divisions, Meerut, Jhansi, Gorakhpur and Lucknow, which are regarded as typical of the major tracts into which the province is divisible. Unfortunately, the figures as they stand in this report are inaccurate in two important and three minor respects, and before using them we have found it necessary to modify them accordingly. (*)

61. The principal results of the calculations as modified are given in the two tables below. Table I relates to the minimum economic holding. This was taken at an area capable of producing an outturn of sufficient value to cover the cultivator's necessary expenses together with his rent; and all the figures in this calculation are given in Table I. Table II shows (1) the income and expenditure of an average holding calculated according to the figures given in the preceding table and (2) the relation between the average and the minimum economic holding :—

TABLE I.

Division.	Value of outturn per acre.	Cultivators expenses.			Rent per acre.		Minimum economic holding.		Average holding.
		(1) Food.	Clothes.	(2) Other, per acre.	Statutory.	Occupancy.	Statutory.	Occupancy.	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Acre.	Acre.	
Meerut ..	75	218	54	10	18½	6	5.5	4.6	7.8
Jhansi ..	27	148	45	5	8	2½	10.0	9.6	18.1
Gorakhpur ..	78	198	45	12	5	4½	4.0	3.9	3.8
Lucknow ..	63	175	45	9	7	..	4.7	..	7.2

(1) Includes food for self, family and cattle ; (2) includes wages of labour and cost of irrigation.

(*) The two important errors are (1) that the author bases the value of the outturn of his typical holding on the average annual prices, and justifies his action by asserting that cultivators generally hold back a considerable part of their produce against a rise in prices. All the evidence before us, however, makes it clear that only the biggest cultivators can afford to wait, and that most must sell at the low harvest price. To allow for this we have reduced his valuations by 10 per cent. (2) With the object of avoiding a disturbance in the census returns of 1921, which was due to an influenza epidemic, the author of this chapter used the figures of 1911; but in so doing he ignored a large increase which had taken place (despite the epidemic), in the number of cultivators since 1911. This increase over the whole province was over a million in round figures; but the distribution of the increase was uneven and for the four divisions it was apparently not less than 1½ million. We have corrected his average holdings accordingly.

TABLE II.

Division.	Value of outturn.	Cultivator's expenditure.				Surplus.	Percentage of average to minimum economic holding.
		Food and clothes.	Rent.	Other.	Total		
<i>Statutory.</i>	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	
Meerut	593	272	105	78	455	130	142
Jhansi	854	188	89	65	292	62	181
Gorakhpur ..	296	243	19	46	308	-12	95
Lucknow	454	220	50	65	335	119	158
<i>Occupancy</i>							
Meerut	585	272	47	78	397	188	142
Jhansi	854	188	88	65	286	68	186
Gorakhpur ..	296	243	17	46	306	-10	97

The following conclusions emerge from these figures. In Meerut, Jhansi and Lucknow the economic position of the cultivator who possesses an average holding is thoroughly sound. The margin between that yield and the minimum economic holding is considerable, amounting in the case of statutory tenants to 42 per cent. in Meerut, 31 per cent. in Jhansi and 53 per cent. in Lucknow; whilst in the case of occupancy tenants it is larger still.

Again, such a tenant possesses, in the surplus which he will secure in any normal year, a reserve which will enable him to tide over any ordinary calamity. That surplus in the case of statutory tenants is 22·2 per cent. of the total outturn in Meerut, 17·5 in Jhansi and 26·2 in Lucknow; and these figures show the extent of the loss which a cultivator can meet from a single year's surplus. Few calamities involve losses as large as these.

62. In Gorakhpur, on the other hand, the figures suggest that the average holding is actually below the economic limit, and that the average cultivator is in serious economic straits; which, if true, would be a deplorable situation. No cultivator can work an uneconomic holding except at a loss. Even in the best of years he could only make ends meet by borrowing, and in any worse year he would be on the verge of starvation. There is, however, nothing in our information to support so pessimistic a view of the cultivator's situation in this division.

Indeed, from the reports relating to Basti district one might legitimately conclude that the cultivator of this tract is decidedly prosperous. The explanation is that these figures, though no doubt accurate so far as they go, take no account of two important economic factors. *Firstly*, the number of cultivators in the Gorakhpur division who have a subsidiary occupation is phenomenal. Whereas in the rest of the province the proportion is only 11·5 per cent., it is here no less than 33·1 per cent. Not only so, but in this division, there is a large benefit derived from the emigrant's remittances, described in a later paragraph (para. 68). *Secondly*, the division possesses an unusually large number of Kurmis, Koiris, and other similar castes, whose agricultural skill is famous. The proportion of such cultivators is 22·2 per cent.; in Lucknow, which also has a large proportion of skilful agriculturists, the figure is only 20 per cent. Such cultivators can and do secure a much larger outturn at a much smaller cost, than the "average" cultivator to whom these figures relate; the minimum economic holding for them would be three acres at most and for Koiris, who specialize in market gardening, even less. Further, this division also possesses less than its fair share of those high caste cultivators whose lack of agricultural skill is so notorious; the percentage is only 12 against 16 in Lucknow. In short, the economic situation of this division is by no means as critical as the figures suggest.^(*)

63. It will be observed that these figures supply an economic holding based on averages for four of the five tracts mentioned in paragraph 56. The exception is the north central tract. There is, however, little difference between that tract and its immediate neighbour to the south, and we may assume that it has the same minimum economic holding, namely 4·7 acres.

64. *Distribution of holdings by size.*—Amongst the figures that we have collected, there are some which distribute the holdings in groups according to their size, and from these it will be possible to determine the proportion of holdings that are below the economic point or above it. But such information would be of little value unless all the factors which cause the situation of that point to vary are also considered. That is a task which must be undertaken in a later chapter. At this stage it will suffice to make the following statements. (1) The number of tenants whose holdings are definitely uneconomic, and who also possess no subsidiary source of income, is relatively small. (2) The number of tenants who possess holdings of the average size or above it is decidedly smaller than the number in the former class. (3) The great

(*) There can, of course, be no better proof of the assertion made above that the economic holding cannot be absolutely determined, but will vary with circumstances.

majority of all cultivators either (1) possess holdings at or slightly above the economic limit, or (2) possess uneconomic holdings with a subsidiary occupation. In either case the result is that, though they can by unremitting toil make ends meet in a good year, they can put by no reserve against a bad year, and when such year occurs can only tide it over by borrowing. And it must be remembered that the standard of living is low.

65. *Fragmentation of holdings.*—These holdings, small though they are, are rarely in a compact block, but are made up of small fields scattered all over the village. This "fragmentation," as it is technically called, is the result of the method in which partitions are usually carried out. Each heir invariably demands his share of each item of that property; his share of every kind of soil, of every well or tank, of houses, groves and pasture land, of roads and paths, and even of individual trees. Such fragmentation has many disadvantages. The nearer fields are apt to be overworked, and the outlying fields to be neglected. It involves waste of labour in moving manure, implements and water to a distance; waste of land in providing boundaries; and waste of time in going to and fro between the fields. It facilitates damage by theft or cattle-trespass; it makes the use of labour-saving machinery difficult; and it restrains cultivators from attempting improvements.

66. Yet fragmentation has its defenders, who warn us not to exaggerate its defects, or overlook its merits; and it is instructive to reproduce some of their principal arguments.

(1) If a cultivator is not to starve, he must have land that he can cultivate all the year round, in the *rabi* as well as in the *kharif*. His holding should not, for instance, be consolidated in rice land, which will bear only in the *kharif*.⁽¹⁾ The argument is inconclusive. If a cultivator can make a sufficient income out of his *kharif* crop to keep himself and his family for the rest of the year, there seems no particular reason why he should cultivate a *rabi* crop at all, still less any reason why he should starve if he does not. The example given, also, is peculiarly unfortunate; a highly successful experiment in consolidation was carried out in a certain Basti estate in 1917, as a result of which each holding, save for a tiny plot or two of *rabi* land near the village site, consisted entirely of rice land; and the tenantry was, and is, remarkably well-to-do.⁽²⁾

⁽¹⁾ Report on agriculture prepared for the Agricultural Commission (1926), page 88.

⁽²⁾ (I was myself concerned in this experiment, by lending staff to the landlord to carry it out; and subsequently, as settlement officer, inspected the results. E. A. H. B.)

(2) Fragmentation, by securing that every holding contains soils of different kinds and qualities, enables the tenant to grow a larger variety of crops, and so to find occupation for a greater number of days in the year.^(*) This is a less unconvincing variant of the first argument. But it only holds good when the number of fragments does not exceed the number of distinct varieties of soil,—as, for various reasons, it often does.

(3) By pooling man-power and bullock-power, cultivators minimize the waste of time and labour caused by the coming and going of men and cattle. The practice exists, but it is by no means universal; no cultivator would take part in such an arrangement if it would entail undesirable delay in the ploughing or watering of one of his own fields.

(4) Fragmentation distributes the risks inherent in agriculture; if a man's holding is scattered his crops are less likely to be completely destroyed by such a calamity as a hailstorm than if it were concentrated in one spot. In one village hailstorms would rarely occur more than twice a year: the remedy is worse than the disease.

(5) Consolidated holdings mean separate homesteads: and separate homesteads mean separate drinking-wells and threshing-floors, and increased risk of dacoity and burglary. This argument undoubtedly has much force: it is doubtful whether the tenant, at all events, could find credit for the considerable expenditure involved.

But the most powerful argument in favour of fragmentation is the fact that the villager, hidebound by custom, actually prefers it. Nevertheless, fragmentation, though it may suit the people, is a serious evil both to agriculture and to the agriculturist. It is less certain that consolidation is the best remedy.

67. *Subsidiary occupations.*—It has already been mentioned incidentally that many agriculturists, especially in the Gorakhpur division, have some second source of income. The census returns of 1921 show that of every ten thousand "workers"⁽¹⁾ whose principal occupation is agriculture, no fewer than 6,758 have some subsidiary occupation. In the case of 3,622 of these, however, the second occupation is also agriculture; the landlord is also cultivator, the cultivator is also a farm labourer, or *vice versa*. Excluding these, who have committed the economic folly of putting all their eggs into one basket, there are 3,136 agriculturists who have some non-agricultural occupation to supplement their resources.

The following is an analysis of these subsidiary non-agricultural occupations. (Figures are "per 10,000 workers").

(*) Agricultural Commission's report, page 184.

(1) Exclusive of "dependents." The average proportion of dependents to workers is 7 to 3.

(1) *The learned and other professions*, 129.—These include lawyers, doctors, school-masters and estate agents. All are landlords, and all but the last manifestly must be absentees.

(2) *Moneylenders and traders*, 409.—Of these, 307 are landlords and 84 tenants; they represent the agriculturist moneylenders described in the next chapter. There are eighteen other traders amongst the labouring class.

(3) *Village and other artisans*, 460.—These include weavers, oil-pressers, rice-pounders, potters, tanners, blacksmiths, carpenters and others. The 81 artisans among the landlords are probably urban: the rest rural.

(4) *Other rural occupations*, 232.—Most of these are cattle-owners and dairymen (191): the rest are fishermen and village watchmen.

(5) *General labourers*, 284.—Of these 20 are described as mill hands and may belong to the urban population.

(6) *Miscellaneous*, 1,622.—Of these 36 are pensioners. No details are given of the rest, but they doubtless include priests, herdsmen, shepherds, basketmakers, grain-parchers, washermen, barbers, shoemakers, scavengers, midwives, domestic servants, beggars and minor village officials such as the *gorail*.⁽¹¹⁾

There are, of course, many other industries than those mentioned above, which are suitable for a rural community,—for instance, the growing of fruit, flowers and tobacco, cotton-ginning, the manufacture of *gur* or sugar, poultry farming. It is, however, unnecessary to discuss them here, since they will form the subject of a separate chapter.

68. Some of our witnesses have mentioned the assistance rendered to peasant families by sons or other relatives who have left their villages in search of livelihood elsewhere, and regularly remit home a portion of their earnings. An appreciable but relatively small part of this migration is directed to labour centres within the province, notably Cawnpore and the hill districts. The greater part of it, however, is directed outside the province altogether. Twenty years ago it was commonly said that there was not a single family in the Benares division which had not at least one member in the provinces of Bengal, Assam or Bihar.⁽¹²⁾ Later census figures show that the volume of such migration is not as large now as it was then, but it is still considerable, and it is spread all over India, from Bombay to Burma. The better classes seek service in the army, in the public offices, or in private business concerns,—as clerks, if they are sufficiently educated, as

⁽¹¹⁾ A curious subsidiary occupation mentioned in a Basti report is *sajn sokha* (witch doctor). (Evidence, vol. II, p. 189.)

⁽¹²⁾ Famine report, 1908, pages 153—5.

orderlies, *darwans* or other menials, if they are not. The labouring classes are attracted by the mills and factories of large towns, the collieries of Bengal, or the tea plantations of Assam and Dehra Dun. It is possible to obtain some clue of the extent of the assistance rendered by these emigrants to their families from the returns of money orders paid in the different districts. The total sum paid by money order during the year 1928-29 throughout the province was 1,385 lakhs. Of this amount $7\frac{1}{2}$ crores or 56 per cent. were paid in fifteen districts from which emigration is known to be considerable, as in the following table :

District.			Amount in lakhs.	District.			Amount in lakhs.
Cawnpore	..	..	87½	Fyzabad	..	..	48
Benares	..	..	80½	Sultanpur	..	..	43½
Allahabad	..	..	71	Partabgarh	..	..	35½
Agra	..	..	69½	Ba'lia	..	..	30½
Lucknow	..	..	65	Rae Bareilly	..	..	27½
Gorakhpur	..	..	60	Mirzapur	..	..	25
Azamgarh	..	..	54½	Ghazipur	..	..	21½
Jaunpur	..	..	53½				

In some of these districts, no doubt, there are big cities,—Cawnpore, Allahabad, Agra, Benares and Lucknow—, and the volume of payments by money order would be large in any case. Again, in Gorakhpur, with its 3 million inhabitants, 60 lakhs is not an extravagant figure. But this explanation will not cover the other districts, all of which, save Fyzabad, are entirely rural and possess no trade or industry sufficient to account for these high amounts. There can, therefore, be no doubt that emigrants' remittances in these districts are a valuable additional source of income to the peasant families which receive them. There are a few other districts with high returns of money orders paid, namely, Aligarh (39 lakhs), Farrukhabad (31 lakhs), Gonda (30 lakhs), Meerut (38½ lakhs), Saharanpur (27½ lakhs), Bijnor (28 lakhs), and Moradabad (42 lakhs). Though emigration is relatively small from these districts, some of them are military recruiting areas, and a part of these remittances come from soldiers serving in other parts of India. Nor is the profit derived by agriculture from emigration confined to occasional remittances. The

emigrant, when at last he returns home, often brings large sums with him. One *darwan* of a bank in Burma retired worth a lakh, which he had made by lending,—principally to the bank's clerks!

B.—Urban.

69. *The urban population.*—Of the total population of the province only 106 per thousand live in towns. The percentage of urban to rural is highest in the west and declines steadily towards the east. In the West Indo-Gangetic Plain it is 15.1; in the Sub-Himalaya Eastern division it is only 36. The total number of towns at the census of 1921 was 446, varying from the city of Lucknow with over 240,000 inhabitants to Kotdwara (in Garhwal at the foot of the Himalayas) with under 400. Of the total number of towns only eighteen had a population of over 15,000; as many as 213 had a population of under 5,000.

70. *Country towns.*—The vast majority of these urban areas can best be described as country towns,—“exaggerated villages with a certain non-agricultural population attracted by the convenience of their sites.” As a rule the trade of such a town lies in its own vicinity, subservient to the interests of the rural tract of which it is a centre. Most of them are either small municipalities, town areas, or notified areas under the appropriate Acts, and are beginning to develop modern amenities such as lighting and drainage. With the completion of a large hydro-electric scheme now being carried out, some 62 towns of more than 5,000 inhabitants in the seven north-western districts will receive electric power,—a change which it may be hoped will result in industrial expansion.

71. *Cities and large towns.*—The rest, which are the larger towns of the province, owe their origin to some extraneous causes. Most of them were built by different rulers for strategical and political reasons. Thus Akbar chose Agra for his capital. Fyzabad, Jaunpur, Bareilly, Shahjahanpur, Farrukhabad, Moradabad, Saharanpur, Budaun, Amroha, Sambhal, Bahraich, Banda and Shahabad were all founded by some Muslim potentate, and are still the homes of his descendants. Asaf-ud-daula built Lucknow merely because he disliked Fyzabad. Benares, Allahabad, Ajodhya, Muttra, Bindhachal, Hardwar and, to some extent, Gorakhpur are important chiefly as centres of religion. Meerut and Jhansi were created by the British Government. Cawnpore owes its origin to trade, and is the only place of first-class importance in the province which does. But if other causes made the towns, yet trade is the cause that has maintained them. And, where trade has deteriorated, the prosperity of the town has decreased with it. Farrukhabad, Mirzapur and Ghazipur were once commercially important, being centre of the old water-borne trade; but the advent of railways has

diverted it elsewhere and their population has decreased. Twenty-four towns with a population of over 39,000 are classed as cities. Of these seven have more than 100,000 inhabitants. Lucknow, the "widowed capital of an extinct dynasty," has the largest population of over 240,000; Cawnpore comes second with over 200,000; Benares third, with 198,000. The other four are Agra, Allahabad, Bareilly and Meerut. Of these Cawnpore and Meerut are also increasing in size. Cawnpore is the centre of provincial industry; whilst Meerut is in the richest tract of the province. Other large towns which are expanding are Moradabad and Shahjahanpur. Elsewhere, the unhealthiness of the decade ending in 1921 caused the population to decrease. But the set-back should only be temporary in Agra, Amroha, Bareilly, Budaun, Etawah, Hathras, Koil-Aligarh, Saharanpur, Sambhal and Shahjahanpur, for all have thriving industries. Allahabad, Benares, Farrukhabad, Fyzabad, Gorakhpur, Jaunpur, Lucknow, Mirzapur and Muttra are cities which live principally in the past.

72. *Principal urban industries.*—Cotton is ginned and spun with rude appliances all over the province, and weaving is carried out in most districts; so, too, is dyeing. Benares and Lucknow are the chief centres of the luxury industries: the weaving of silk; embroidery of every kind in gold and silver on velvet, silk or sarcenet, or of silk and cotton on muslin,—the last-named is the well-known *chikan* work of Lucknow, an industry of the respectable poor, especially Muslims. Agra, Aligarh and Bareilly are famous for their cotton carpets, whilst Mirzapur is the chief centre for the manufacture of woollen carpets. The cotton-printing industry is well established in Lucknow, Farrukhabad, Shahjahanpur and other smaller places. Ornamental metal work is a speciality of Lucknow (silver), Moradabad and Benares (brass and copper); whilst metal household vessels of all sorts are made principally in Mirzapur, Farrukhabad and Lucknow. Glass bangles are made in Firozabad in the Agra district. The manufacture of glass for domestic use is carried out at Bahjoi in Budaun and Allahabad. There is a considerable trade in articles carved from marble and soapstone at Agra, whilst Saharanpur and Nagina are the centres of wood-carving; the latter specializes in ebony. Aligarh enjoys the monopoly of lock-making. All these industries are carried out both in factories and in the home. The principal factory centres are Cawnpore, Agra and Hathras. At the census of 1921, according to the industrial statistics then collected, there were in all 1,369 factories in the province, mainly connected with textiles, metal, sugar, flour, oil and leather. These factories are usually run on Western methods and the bigger establishments in ordinary times find no difficulty in supplying

themselves with capital. The same is not always true of the smaller factories.

73. All industries, whether of a factory or cottage type, are suffering from foreign competition and the trade depression of recent years. The cottage industries also suffer from competition with factories and from changes in popular taste, both in respect of material and of design. But they suffer most from their own conservatism. The industrialist's business methods are out of date. He has not learnt that contracts are made to be kept. He will not bind himself to supply an article of a certain kind on a certain day, and prefers to work as, and when, the artistic spirit moves him. He has not learnt that advertisement is an essential preliminary to the sale of goods; customers must come to him, for he will not go to the customers. There are a certain number of manufacturers who have managed, in one way or another, to get and keep in touch with the foreign market;⁽¹⁾ and in such cases the industry usually flourishes. But taken as a whole, the cottage industries of the province are declining.

C.—Social.

74. *Economic aspects of the Hindu social system.*—Every Hindu is subject to a customary code which governs his every action, almost his every movement, from the cradle to the grave, and gives shape to his entire environment, economic as well as social and religious. Any account of the economic features of an Indian province would be incomplete if it did not contain a description of the economic aspect of the Hindu social system, especially when that account is preliminary to an examination of indebtedness. For, on the one hand, one of the principal factors which produced caste was the economic principle of differentiation of function, in accordance with which first the ancient trade guilds and then their modern successors, the occupational castes, came into existence; whilst, on the other hand, as numerous statements in our evidence prove, a very large part of the total agricultural debt is the direct effect of unavoidable social custom. Within the space at our disposal it is impossible to deal with this matter in detail; all that is possible is to give instances to prove the main contention, namely, that the caste system has a profound effect on the economic life of an Indian peasant.

75. *Economic effect of social status.*—The caste system is essentially aristocratic. Every caste has its appointed rank and every individual's status in society is governed by the rank of the caste to which he belongs. That status cannot be raised. It can, however, be lowered, if in any respect he fails to obey the dictates of custom; and the higher the

⁽¹⁾ Usually such industrialists were exhibitors at the Wembley Exhibition and profited by the lessons which they then gained.

caste the greater the need for such observance. Some of the customs affecting social status have an important economic bearing.

(1) A high caste woman, whether Hindu or Muslim, must remain in seclusion. She cannot work in the fields.

(2) Custom forbids a Brahman or Rajput to handle the plough. Some witnesses suggest that this custom is weakening. It is, however, still generally prevalent. This restriction appears to have no religious sanction. Manus in referring to the various means of livelihood open to a Brahman, after first mentioning the priestly and military occupations, writes: "If it be asked how he (the Brahman) must live, should he be unable to get a subsistence by either of these employments, the answer is he may subsist as a mercantile man, applying *himself in person* to tillage and attendance on cattle."⁽¹⁴⁾

(3) A high caste man who comes into physical contact with a member of an untouchable caste becomes impure, and must at once wash both himself and his clothes. As most field labourers are "untouchables," and it is difficult to avoid such contact in some of the field operations in which a high caste man could assist, the latter is apt to confine his energies to supervision. This taboo is also said to be weakening, but it still persists.

(4) Expenditure on various ceremonies is much larger amongst high castes than low. Not only has a Brahman or Rajput to spend more lest he lose social standing: but he must observe all the twice-born rites, whilst a man of lower caste can restrict himself only to the most important. And there are sixteen of these rites (*sanskara*), all of which cost money: marriage, of course, is by far the most expensive.

76. These social customs have the following economic results:—
Firstly, they increase the cost of cultivation, since the high castes must employ far more labour than the low. *Secondly*, high caste cultivation is rarely as skilful or productive as low caste cultivation: where the Kurmi produces wheat, the Brahman produces barley, and only second-rate barley. On the other hand, the high castes usually enjoy a rental privilege, which is often as high as 25 per cent., and generally possess far more than their fair share of the larger holdings. The Brahman, moreover, by virtue of his Brahmanhood has a subsidiary source of revenue in the shape of priestly and caste dues (*purohiti* and *brit* or *jajmani*). These include not only fees for services rendered, but presents, usually of food, that are made either on ceremonial occasions or by way of a penance. One of the most common punishments in the penal code of any caste *panchayat* is the feeding of so many Brahmans.

⁽¹⁴⁾ *Institutes* X, 82.

77. In short, the high caste agriculturist possesses certain definite advantages, which are, however, more than counterbalanced by the costliness of his cultivation and the inferiority of his crops. He also has to bear specially high expenditure as a result of his social obligations, set off, in the case of a Brahman, by a steady income derived with the minimum of toil from his Brahmanhood. On balance, the Brahman certainly gains. The figures at our disposal suggest that the Brahman's debt is by no means so high as that of the Rajput; indeed, it is often relatively low, whilst there are many instances on record of moneylending Brahmans. But the Rajput as a class is deeply in debt, and our witnesses have many unfavourable comments to pass on his habits. One writes as follows: "The predominant Rajput is notorious for extravagance and bad husbandry. Proud of his birth and traditions, more accustomed to fight than to till, the Rajput is by common consent the worst cultivator of this district (Meerut) He considers it below his dignity to touch the plough himself and his fields are at the mercy of hirelings. . . . His pride of birth and regard for ancient tradition make him prodigal in his expenditure on marriages and other social functions. The traditional custom of marrying his daughter to a social superior leads to reckless borrowing and ends in the mortgage and sale of his land. Yet though he is so scrupulous to preserve his *izzat* (honour), he is rarely punctual in repayment of his debt."⁽¹⁵⁾ Another witness writes "Partabgarh is a district of Rajput *taluqdars* and the petty Rajput *zamins* feel that they must maintain the same social status as their richer brethren, with the result that they spend freely on marriages and other social customs to keep up their prestige."⁽¹⁶⁾ In this particular village, the Rajput landlords owed over Rs. 14,000, of which over Rs. 4,000 had been expended on marriages, against the tenantry's debt of under Rs. 700. In every district that has recently been under settlement Rajputs seem to have lost considerable areas of land, regarding which one witness goes so far as to say that it would be a good thing if they lose more. Other high castes are also deeply indebted, notably the Bhuihar Brahman of the eastern districts and the Kayastha. Social expenditure is also high amongst certain lower castes that have prospered, and accordingly have begun to ape the customs of their betters.

78. *Economic effect of caste on trade and industry.*—As has already been mentioned, the functional castes are often the direct descendants of the trade guilds of ancient India, and many of them are as strict in regulating trade matters as ever were the guilds. Their *panchayats*,

(¹⁵) Evidence, Vol. II, p. 238.

(¹⁶) Evidence, Vol. II, p. 199.

which are often extremely powerful bodies, deal with such offences against trade custom as encroaching on another's clientèle, raising or lowering prices and methods of sale or manufacture. The strongest weapons in the hands of the *panchayats* of functional castes are the strike and the boycott, and they use them freely, not only against individuals but against entire castes, against local bodies, and even against government. Some forty years ago, the Koiri poppy-growers, being dissatisfied with the rates paid for opium by government, summoned a *panchayat*, which decided to refuse payment at the prevalent rate and cease growing poppy unless the rate was enhanced. And in the end the rate had to be raised. The class of offences with which these *panchayats* most commonly deal are those connected with *jajmani*; an alternative term is *brit*. Literally the word "*jajman*" means "the giver of the sacrifice"; but it is now extended to include a client or patron of any kind. The *jajmans* of a Brahman *purohit* or priest are his parishioners, whose domestic rites it is his duty to superintend. In the same way, Chamars, Doms, Dafalis, Bhats, Nais, Bhangis, Barhais, Lohars and Mahabrahmans all have their *jajmani* or circle of clients, from whom they receive fixed dues in return for regular services. The Chamar's *jajmans* are those from whom he receives dead cattle and to whom he supplies leather and shoes. His wife has a *jajmani* of her own, for whom she acts as midwife and performs various menial services at marriages and other festivals. The Nai has a clientèle whom he shaves, and for whom he acts as match-maker and performer of minor surgical operations (such as drawing teeth or lancing boils). His wife is the hereditary monthly nurse. Barhais and Lohars in the villages have their circles of constituents whose ploughs and other agricultural gear they make or mend. The Dom's *jajmani* is a beat in which he alone is allowed to beg or steal. The *jajmani* is a valuable source of income, both heritable and transferable. We have many instances on record where *jajmanis* have been mortgaged, both with and without possession, whilst it is said that the Dom's begging beat and the Bhangi's circle of clients are often given as a dowry. They are accordingly strictly demarcated, and to poach on them is an action bitterly resented. It is said that a Dom would not hesitate to hand over to the police any strange Dom who stole within the former's "jurisdiction." The *jajmani*, of course, is a valuable asset and many a villager derives at least as much of his income from this source as from his fields.⁽¹⁷⁾

(17) For cases of interference by *panchayats* in trade matters see Census Report, 1911, pages 342, 343. An account of the dues paid to Jahars, Chamars, Barhais and Nais by their clients will be found in the Evidence. Vol. II, p. 220.

79. One witness writing of Agra tells us that the village money-lender in those parts also works on the *jajmani* system. When the *sahukar*, as he is there called, accepts a cultivator as his client (*asami*), it becomes his duty to give advances in money for any purpose whatsoever, and also in any kind in which he deals. The client, on the other hand, undertakes to borrow from no one else and to settle the *sahukar's* dues out of his produce before he settles anybody else's. The system appears to be peculiar to some western districts, and has certain obvious advantages. As another witness has put it "the *asami* is wedded to one *mahajan* who stands by him through thick and thin and advances him money at all times." In other words, the interests of lender and borrower are identical

80. *Social custom and debt. (a) Marriage.*—"The begetting of a virtuous son," says Baudhayana, "saves his father from hell, together with the seven preceding and seven following generations." Marriage, therefore, is a religious duty, which the Hindu owes not only to himself, but to his ancestors and his descendants; and marriage expenditure is unavoidable.

81. Amongst all castes of good social standing, the burden of marriage expenditure falls on the father of the bride. He must provide the girl with a suitable dowry, and with ornaments, clothing, and household utensils. He must entertain the bridegroom's party for several days; he must fee the officiating priest; he must feast the assembled brethren and Brahmans. The groom, on his side, must purchase suitable presents for the bride, and suitable wedding garments for himself and his suite; but, as a rule, the dowry more than covers his expenditure. Amongst low castes, on the other hand, two customs are prevalent which reduce the burden by distributing it. *Firstly*, the brethren present at the feast are often invited to make a contribution (*takawan*) towards the wedding expenses; a brass plate (*thali*) is passed round into which each guest drops a silver coin.⁽¹⁸⁾ And *secondly*, in many low castes, the dowry paid by the father of the bride is replaced by a bride-price, paid by the father of the bridegroom, which in practice is always appropriated to the cost of the ceremony. This bride-price is generally fixed by caste custom and is sometimes so small that it plainly dates back to a time when the purchasing power of money was much greater than it is now.⁽¹⁹⁾ In other

(18) As a speculation moneylenders will sometimes advance a sum fixed by agreement and take the *takaran* in full payment (Evidence, Vol. II, p. 58).

(19) For a list of bride-prices, see Census Report, 1911, page 221. The lowest is Rs. 1½, but there are twenty-five under Rs. 10. See also Evidence, Vol. II, p. 259.

cases, the bride-price is specially fixed on a consideration of the circumstances of the bridegroom and his family.

82. Marriage expenditure is often grossly extravagant. The principal cause is the custom of hypergamy, which is prevalent in all castes of good social position, by which the bride must always be of lower social position than the bridegroom. The result is that the bride's family, in an attempt to live up to the bridegroom's position, spend much larger sums on the wedding than they can afford. It is not surprising that in such a caste as the Rajput, to whom display is almost a social duty, the birth of a daughter means the beginning of debt. One witness estimates the marriage expenditure of a Rajput cultivator at Rs. 600; but it must often be much higher than that, and amongst the wealthier members of the community, sometimes runs into lakhs. Amongst low castes, as a rule, marriage expenditure is not so serious a matter, and is very often repaid within a reasonable period. A Kurmi wife, it is said, costs Rs. 32. Nevertheless, even the lowest castes are occasionally extravagant; for instance, an instance is recorded of an Arukh in a village of Hardoi district who spent Rs. 300 on the wedding of his daughter, though his only sources of income were a holding of under two acres and the wages of occasional labour.

83. *(b) Other ceremonies.*—Other ceremonies besides marriage often drive the villager into debt. Amongst those mentioned are birth and funeral ceremonies, *shraddhas*, and the *upanayana* or thread ceremony. Money is also frequently borrowed for pilgrimages, and occasionally for *kathas* (sacred recitations). The sums are often considerable.

84. *(c) Caste penalties.*—The jurisdiction of caste *panchayats* in matters of trade has already been mentioned. Their principal concern, however, is the investigation and punishment of offences against social customs. These *panchayats* frequently impose heavy fines, or order the offender to give a feast either to a specified number of Brahmins, or to the brotherhood, or to both. As the offender is invariably excommunicated till the sentence has been carried out, he must often find it necessary to borrow. Naturally villagers would be reticent about debts ^(*) due to this cause, and only one instance of it is actually mentioned.

85. *Ancestral debt.*—A very common object of borrowing is for the repayment of ancestral debt. As it is also a type of debt from which the debtor finds it difficult to free himself effectively, it is necessary to explain precisely the nature of the obligation which makes debt heritable.

(*) A number of actual instances of *panchayat* sentences will be found in Census Report, 1911, pages 340-341.

The liability of one person to pay debts contracted by another depends ultimately on the principle, constantly recurring in Hindu Law, that legal rights are taken subject to the discharge of moral obligations.⁽²¹⁾ It may arise from three completely different sources. These are:—*Firstly*, the religious duty of discharging a debtor from the sin of his debt; *secondly*, the heir's moral duty of paying a debt contracted by the person whose assets he has inherited; and *thirdly*, the legal duty of paying a debt contracted by one person as the agent, expressed or implied, of another. The first duty arises only in the case of the debtor's immediate descendants, son and grandson. The second arises in the case of any heir or successor in interest. The third is an incident of the Hindu joint family system, and affects the co-sharers of the managing member of such a family. In any one case, two or more of these duties may co-exist, but any one of them is sufficient to constitute the liability.

86. It is necessary to realize, however, that this liability has its limitations. *Firstly*, the liability does not descend beyond the grandson, whilst some authors hold that it covers interest in the case of a father's debt only, and not of the grandfather's. *Secondly*, the heirs cannot be compelled to pay debt incurred "for a cause repugnant to good morals." *Thirdly*, the law, as now administered in all provinces except Bombay, limits the liability to the extent of the assets inherited. But these limitations are not of much practical importance. Few heirs would dishonour their ancestors' memory by repudiating their debts as immoral. Again, a moneylender who was likely to be defeated by either the first or the third exception, would invariably try to induce the heir concerned to execute a promissory note in his own name; and such is the force of tradition that he would generally succeed. If he does, then the debt revives as a debt of the heir himself, and both limitations are avoided.

87. One of the Hindu lawgivers says: "he who having received a sum lent . . . does not repay it . . . will be born hereafter in his creditor's house a slave, a servant, a woman or a quadruped."⁽²²⁾ In other words an unpaid debt is a sin, the consequences of which follow the debtor into his next life. It is not, therefore, sufficient for the heir to take over the debt, it is also necessary that he should pay it; and the evidence before us shows that a large⁽²³⁾ amount of fresh debt is borrowed to repay old debt. From the point of view of the ancestor that is

⁽²¹⁾ Mayne's *Hindu Law and Usage*, 8th edition, page 394. The following account is entirely based on this book.

⁽²²⁾ Vrihaspati *apud* Jagannatha Digest, Vol. I, page 334.

⁽²³⁾ Elsewhere the amount of total debt which consists of such borrowing is estimated at 15 per cent. See Chapter IV, para. 159.

doubtless satisfactory; from the point of view of the descendant, however, it means merely that the new debt replaces the old and one creditor replaces another.

88. *Muslim indebtedness.*—"The main reason," writes a Muhammadan witness, "for the growing poverty of the Muslims in this province is their high cost of living as compared with that of other communities. The Muslim has not adjusted himself to changed circumstances, and still adheres to the habits and ways which characterized him during the decadence of Muslim rule in India." His standard of living is infinitely more expensive than that of the Hindu, and always up to, if not beyond, his income. Hospitality, moreover, is to him almost a religious duty. "God's angels do not visit a house where there are no guests." The charge of thriftlessness can be more justifiably laid at the door of the Muslim than of the Hindu peasant. His economic position is also seriously affected by the Muslim law of inheritance. In a Hindu joint family, widows get merely a life interest, daughters get nothing, and the estate is managed by a *karta* or agent. Amongst Muslims, on the other hand, the division of property after a death is inevitable, and often results in breaking up small estates into fragments which are not worth keeping. Byt though the heir's income is thus diminished, his expenditure remains on the same scale as it was before the property was divided; for to cut down his expenses would bring disgrace to the family. The Muslim again, is more litigious than the Hindu. "The wrath of the petty Muslim *zamindar* is easily aroused, even on matters of minor importance . . . If a tenant has the hardihood to refuse to work for him, he must be punished, or if a neighbouring landlord has refused to allow the *zamindar's* cattle to graze in his pasture, he must be brought to his knees." And the result is a lawsuit, or possibly a criminal prosecution. Meantime, his family pride prevents him from taking up commercial occupations unless he happens to have been born into some trade, and even then he is rarely able to make both ends meet. Finally, the Muslim woman, unlike her Hindu sister, must observe *purdah* in all but the lowest rank of society. The natural result is that the Muslim falls quickly and easily into debt to an extent even greater than the Hindu. Yet whilst he is ready to pay the most usurious rates of interest, his religion does not permit him to lend money on interest; and thus such capital as the Muslim possesses is often rendered inoperative.

89. *The peasant's psychology.*—The peasant is generally described as a fatalist, demoralized by his ceaseless struggle "to extort a bare

livelihood from an insufficient holding;" as a spendthrift, incapable of resisting the temptation to relieve pressing necessities by mortgaging his future income and even his capital; as living a life of pathetic despondency, with neither the desire nor the will to live better.⁽²¹⁾ And many of our witnesses would concur in this general description, though they themselves provide many particular instances that prove it wrong. Long experience, no doubt, has taught the peasant that agriculture is a game of chance between man and nature: that nature's dice are always loaded: that man can only win if nature permits. And such experience naturally induces a mood of fatalism. But the peasant also knows that at least five times in ten,⁽²²⁾ man *does* win the game, and consequently he goes on playing it; his fatalism does not issue in inactivity. For his thriftlessness, it is necessary to distinguish. The low caste cultivator is by no means reckless in his expenditure. Occasionally an ambitious Arakh may spend Rs. 300 on his daughter's wedding, or an extravagant Chamar borrows Rs. 100 for his grandmother's funeral;⁽²³⁾ but generally he borrows no more than he must, and repays as soon as he can. The high caste cultivator is certainly extravagant, but his expenditure is directed not so much to the relief of his necessities, agricultural or personal, as to the maintenance of his social prestige: it is the extravagance not of an agriculturist, but of an aristocrat.

90. It is Mr. Moreland who is responsible for the statement that the Indian peasant "has no will to live better," though he admits that the inhibition is wearing thin in the conditions of recent years. The truth, however, is that the peasant has his own ideas of what constitutes better living. Some, like the Kurmi, prefer to utilise their surplus in increasing their income by moneylending, or in acquiring fresh land. So far, at all events, they prefer an increase in material wealth to an increase in personal comfort, though the latter may come when their ambitions are satisfied. But most low castes that are prospering begin to ape their betters. They give up their low caste customs; they prohibit, for instance, the re-marriage of widows, abandon the use of intoxicants, reduce the age of marriage, pay Brahmans large fees to serve their rites, and increase their expenditure on marriages and other social ceremonies. Finally, they advance a claim to be descended from

(²¹) See Mukerjee's *Rural Economy of India*, pages 6 and 80; Agricultural Commission's report, pages 432 and 490, quoting Mr. W. H. Moreland.

(²²) The peasant reckons five good years in ten: the expert economist reckons seven in ten. See evidence of Professor C. D. Thompson in Vol. IV.

(²³) See above paragraph 82 for the Arakh: and Evidence, Vol. II, p. 261. for the Chamar.

some higher group of castes, the Brahman, the Chhatttri, or the Vaish. To such castes better living means social position, not solid comfort.⁽²⁷⁾

91. In proof of these assertions, we may quote the Jat and the Kurmi, in praise of whom our witnesses have much to say. "The Jat takes a high rank amongst the cultivating races of the province. He is simply a slave to his farm He never dreams of taking any service except in the army, he is thrifty to the verge of meanness and industrious beyond comparison. If his crops fail, it is sheer hard luck His fault is quarrelsome; and in litigation he never knows when he is beaten."⁽²⁸⁾ As in litigation, so in agriculture,—he never knows when he is beaten. He spends his life in quarrelling with nature. The Jat never says die: according to the proverb, "*Jat mara tab janiye jab terahwin guzar jae*" (never be sure that a Jat is dead till the days of mourning for him are over).

As for the Kurmi, he is even more canny in money matters than the Jat, though less quarrelsome. Apart from that, there is nothing to choose between them. "The Kurmi is always planting, whether his crop lives or dies."

And there are many other agricultural castes that are well nigh as good as the Jat or the Kurmi.

92. *The peasant's ignorance.*—There is, therefore, little wrong with the peasant's character. His mental equipment, however, leaves much to be desired. He has a certain native shrewdness, and the most cunning moneylender cannot easily deceive him. But he is wholly ignorant of many matters of great importance to his own well-being. If he does not improve his methods of cultivation, it is because he does not know how to do it. If he has not the will to live better, it is because he does not know in what better living consists. If he submits too readily to temptation to misuse his credit, it is because he has never been taught how to use it. And being wholly illiterate he cannot acquire this knowledge for himself. Indeed, he has little interest in affairs outside the narrow rural circle in which he lives. His conversation is mainly of the crops, of food, and of money. His only amusements consist of a religious recitation (*katha*), an occasional itinerant show, or a visit to the neighbouring bazar. His only intellectual exercise is taken in the mazes of the family lawsuit. There are, however, signs that in present conditions the scope of his interests is beginning

(²⁷) The Settlement Officer of Rae Bareilly reports that the prosperous market gardening castes (Kachhi and Murao) of that district are aping the high castes in the matter of social expenditure. See also Census Report, 1911, pages 322 and 323, and Census Report, 1921, page 151. Similar requests with reference to the Census of 1931 are already coming in.

(²⁸) Crooke's *Tribes and Castes of the N.-W. P. and Oudh*, Vol. III, page 40.

to widen, and now embraces matters to which ten years ago he was entirely indifferent. For instance, politicians tell us, undoubtedly with truth, that he is now curious of political questions. That is all to the good, for if he is prepared to give thought to public affairs, he will probably pay more attention to his own private affairs. And when he does, it is impossible that he should remain satisfied with their condition. In a word, what the peasant most needs is education,—not merely in the narrow sense of literacy, but in its broadest sense, the development of mental powers,—education, and a little of that "splendid discontent," which is the first step in the progress of a man or a nation.

CHAPTER III.

GENERAL DESCRIPTION OF EXISTING CREDIT AGENCIES.

93. It is impossible to give a coherent account of the credit system of the United Provinces; indeed "system," in this connexion, is a word misused. Numerous forms of credit transaction are practised, most varieties of credit agency are represented. Yet it is impossible to assert of any agency that it confines itself to any particular type of transaction. The petty moneylender of the village often has his dealings in the town, the financial magnate of the town does not disdain at times the petty operations of the village. ⁽¹⁾ Again, there are few moneylenders, from the wealthy shroff to the rural *bania*, who do not combine with moneylending some other line of business, which is often the more important of the two. "They are grain dealers, general merchants, commercial agents, brokers, goldsmiths, jewellers, land-owners, industrialists, and traders", ⁽²⁾—notably traders in cloth and cattle. And the professional moneylender has amateur competitors. Landlord and tenant, pensioner and petty official, lawyer and priest, even the landless labourer—Brahman, Rajput, Kurmi, Koiri, even the Chamar—anybody with spare cash seems to prefer usury to any other form of investment. ⁽³⁾ Adapting Sir Alfred Lyall's famous phrase we can fairly describe the credit system of the province as "a tangled jungle of disorderly transactions." Nor is the task of description made easier by the fact that the terminology of credit is as indeterminate as the thing itself. The village usurer is known by various names in different parts of the province—*bania*, *mahajan*, *sahukar*, *bohra*, *beopari*,—all of which are used elsewhere in other senses. ⁽⁴⁾ And in

(1) For instance the Rastogis of Lucknow and the wealthy merchants of Moradabad lend money in the rural tracts of neighbouring districts.

(2) L. C. Jain, *Indigenous Banking in India*, p. 43.

(3) One small village of 331 inhabitants is reported to owe money to 60 individual moneylenders, of whom only eight were professionals. There were eleven landlords, twenty tenants, four officials (patwaris and schoolmasters), five traders, several labourers, a faqir, a priest, a pleader, and Government. In another village one of the moneylenders was a deity whose shrine was in the locality. (Evidence, vol. II, p. 249).

(4) As moneylending is so often a secondary occupation, it is perhaps significant that of the various terms for moneylender, only one originally carried that meaning—*bohra*, a corruption of *beohara*, which means lender or creditor. *Bania* means trader, shopkeeper. *Mahajan* means literally "a great man": thence through the meanings "worthy of credit" and "possessing credit" to banker or merchant. *Sahukar* (vulgarly *sowkar*) meant first honest, then solvent, then merchant, trader, banker. *Beopari* (*baipari*, *syopari*) means a tradesman. *Bania* was long used as a caste name for all sorts of traders; it has been replaced in this sense by the older word *Vaish*. *Bohra* is recognized as a caste in western districts, which claim Brahminical descent. *Mahajan* has also been used by some as a caste name, usually the lower (non-Vaish) trading castes, such as *Kalwars*.

these circumstances it appears advisable, at this stage, merely to describe the existing credit agencies one by one, without attempting to correlate them or their activities, or to classify them except in broad groups.

A.—Rural credit agencies. (1) The professionals.

94. *The village moneylender.*—The village moneylender, or *bania*, as he is most commonly termed, has existed in India from time immemorial. Traditionally moneylending is an occupation appertaining to the Vaishyas, the trading, commercial and industrial class of ancient India; but from an early date this Vaishya preserve was invaded by members of higher groups, who preferred wealth to social position. At the present day the moneylender may belong to any caste; Brahmans, Rajputs, Khattris, Telis, Hulwais, Kalwars are only some of those mentioned in our reports, with Vaishyas of divers groups and diverse standing, from the proud Agarwal to the humble Kandu.

95. For many centuries the *bania* tribe has borne a bad name for rapacity and meanness. Rustic wit is responsible for many a sarcastic proverb at their expense.⁽¹⁾ Tavernier, writing about 1660, says of them that "they are so subtle and nimble in trade, that the Jews might be their 'prentices." And in popular opinion they have not improved since Tavernier wrote. But there is ample evidence before us to show that popular opinion, as often, exaggerates. Says one witness⁽²⁾, "the village moneylender is often described as a vampire who sucks the blood of the cultivators, but in fact he is not altogether the bloodthirsty creature which he is painted." He is certainly no philanthropist; his object is to make money, and he is not always particular regarding the means by which he does it. He will deduct future interest from the principal before he pays it; he will debit his client with all incidental expenses. He will cause an illiterate borrower to put his thumb-impression on a blank form, and subsequently fill it up with a sum in excess of the amount actually lent. He charges a rate of interest which is always high and often extortionate, and compounds it at frequent intervals. Nevertheless his prosperity depends on that of the peasantry whom he finances; it is not to his advantage to see a client ruined, and when occasion arises he can and does show leniency. He will not, for instance, use his fraudulent bond unless the client by his contumacy forces him to go to law. Again, if his debtor is prompt and punctual in repayment, he will often allow him a rebate of interest when the

(¹) "*Banis mere jan, thag mere anjan*": The robber slays strangers, the *bania* his friends. "*Na bania mit, na banas sat*": A friendly *bania* is as common as a chaste courtesan. "*A bania goes in like a needle and comes out like a sword.*" See Risley, *People of India*, 1915, pages 311—313.

(²) Evidence, vol. II, p. 239.

account is finally closed. Meantime, it is to him that the needy peasant turns for help in every trouble. It is he who lends him money for his rent, and so saves him from ejectment. In the best of years there are always two periods when the small cultivator's stock of food runs short : it is the *bania* who provides him with the means of subsistence. It is again he who finances the marriage ceremony and the lawsuit,—one almost as inevitable as the other. It is his capital, constantly revolving in its own narrow circle, which brings crop after crop to the threshing floor. He is indispensable in the economic life of the people whom he serves, and the people know it. "The peasant always shows a great regard for the village moneylender." (7) Though they may gird at him, yet they prefer his methods to those of either government or co-operative society. He does not keep the borrower waiting for his money till the time for its profitable spending has passed. He does not press for repayment at due date, if he knows that such repayment is inconvenient. He does not conduct embarrassing inquiries into his client's *haisiyat* (financial condition); for what it is worth, he knows it already, and the element in it to which he attaches most importance is the client's reputation for prompt and regular payment. (8) Though he may hold a lien on the standing crop or the unborn calf, yet if he can rely on his client's honesty, his bond becomes for him little more than collateral security, to be used only if he finds that his reliance is misplaced.

96. In short, the village moneylender is an indispensable element in rural life,—an element that is often expensive and sometimes dangerous, but always necessary. Should he withhold credit, as under the stress of circumstances he sometimes does, then widespread distress quickly follows. When the village moneylender draws tight his purse-strings, government must open test works. (9)

97. The village moneylender falls into two classes; the differences between them are of sufficient importance to warrant separate description. To the first we have attached the label *bania*; to the second the label *mahajan*.

98. *The village bania*.—Scattered up and down the countryside there are to be found petty tradesmen,—dealers in grain or provisions, or keepers of small general shops,—who sell goods on credit and also lend money in small sums. They generally belong to one of the lower Vaish groups or to such castes as the Teli, the Kalwar or the Halwai. Their capital is small, rarely exceeding a thousand rupees; and their

(7) Evidence, vol. II, p. 220.

(8) These are the arguments used repeatedly to explain the unpopularity both of *taqavi* and co-operative society's loans.

(9) Precisely this situation has arisen in the Muttra district.

transactions are to match. Their fortunes and those of their clients are identical. In a good season their dues are promptly paid, and client and creditor grow prosperous together. In a bad season their dues remain unpaid, and creditor and client alike must tighten their belts. This community of interests produces a fellow-feeling which reflects itself in their business methods. They rarely trouble themselves about security; their security is their personal knowledge of their clients. Many, possibly most, of their loans are of the kind called *dast garda* (*garza*) or *hath udhar*, in which there is neither document nor witness, and the loan is granted on a simple promise to repay, sometimes backed by an oath. ⁽¹⁰⁾

99. The transactions of so small a capitalist are necessarily small. The nature of them is apparent from a curious document reproduced in one of our special reports.⁽¹¹⁾ This document is a statement of account rendered by a village *bania* to his client covering a *rabi* season from seed time to harvest.⁽¹²⁾ It may be summarised as follows:—

DEBIT		CREDIT.	
	Rs. a. p.		Rs. a. p.
Cash (1) in <i>Kartik</i> ..	.. 5 0 0	Cash ..	.. 10 0 0
(2) in <i>Phagun</i> ..	.. 7 0 0	Grain (<i>basjhar</i>), value	.. 10 8 6
(3) at <i>Holi</i> and other		<i>Ghi</i> , value ..	.. 1 0 0
festivals ..	.. 9 0 0	Use of cart, value ..	.. 3 8 0
Seed (1) wheat, value	.. 11 0 0	Pair of shoes, value	.. 1 4 0
(2) gram, value	.. 1 8 9	Fodder, value ..	.. 1 4 0
Wheat at <i>Holi</i> , value ..	.. 2 5 0	<i>Candhi</i> (?) ⁽¹³⁾ , value	.. 11 0 0
Sugar at <i>Holi</i> , value ..	.. 1 0 0		
Cloth for garments, value	.. 11 9 0		
Total (sic)	.. 41 8 9	Total (sic)	.. 39 2 6

This account clearly relates to the occasional borrowings of some cultivator for various needs, both agricultural and domestic,—a man of some substance, since he possesses a bullock cart, and, as is shown by his paying part of his debt in *ghi*, at least one milch cow. It is a running account: the cash debit of Rs. 21 was taken in seven instalments varying from one to six rupees, whilst there were four purchases of cloth varying from thirteen annas to seven rupees. The debtor begins his *rabi* season by borrowing seed of two kinds to the

⁽¹⁰⁾ L. C. Jain *op. cit.* page 68.

⁽¹¹⁾ Evidence, vol. II. p. 368.

⁽¹²⁾ *Kartik* to *Phagun* 1984 *Sambat*, corresponding with October, 1927 to March, 1928.

⁽¹³⁾ "*Candhi*" is reproduced from the report. It is an impossible word, which may conceal *chandi* (silver), *kandi* (cowdung fuel), or *kandhi* (a kind of necklace).

value of Rs. 12-8-9 (the only single transaction which runs into two figures), and Rs. 5 in cash; in *Phagun*, with harvest at hand, he borrows another seven rupees. Meantime, he has replenished his wardrobe to the extent of three shirts, a *dhoti* and an *angochha*; and in celebrating the *Holi* and other festivals has given rein to his extravagance at a cost of Rs. 12-5-0. It may further be noted that this account contradicts the popular idea that as between a literate moneylender and an illiterate client the advantage is always with the former, because he keeps the account. For both the totals are wrong; they should be Rs. 48-6-0 and Rs. 38-8-6 respectively, and both errors are in favour of the client. Again, whereas a bigger moneylender would generally refuse payment except in cash or, if he has lent grain, then in grain of the same kind, this *bania* has accepted payment in all sorts of commodities, including grain of a much cheaper kind than the kind which he lent. ⁽¹⁴⁾ And finally, all save the cash transactions are obviously rather credit purchases than loans. In short, the village *bania* is quite as much a tradesman as a moneylender.

100. *The village mahajan.*—The village *mahajan* is in every way a much more important man than the village *bania*. *Firstly*, his business is on a much larger scale; he possesses greater resources; he deals in bigger amounts and has a more numerous clientèle. Several instances are mentioned in our reports of individuals whose capital reaches and even exceeds half a lakh. *Secondly*, the *mahajan's* transactions are loans in the correct sense of the word, and not sales on credit. He lends money or grain, and demands payment in the same commodity. *Thirdly*, all his transactions are governed solely by business principles. The amount which he will lend, the interest which he will charge, depends entirely on the security offered to him, and he does not allow personal considerations to affect his judgment. If he shows leniency it is as a matter of business, for it is not to his interest that his client should be ruined. Many of them are masters of all the usurer's tricks, and practise them whenever a suitable opportunity arises. The *mahajan* usually operates in a definite area, where he is well known, and which may vary according to his circumstances from a group of villages round his home to one or more districts. He is also apt to restrict his dealings to a definite clientèle, as is natural, since he relies so greatly on his personal knowledge of his clients. Like the *bania*, he may be of any caste. Our reports mention, amongst others, Rastogis, Brahmins, Bohras, Rajputs, Telis, and even Chamars. The size and to some extent the nature of his transactions vary with his financial status. Whilst the smaller man will deal with anybody

(14) *Bejher* is a mixture of grains, wheat, barley, gram, sometimes also peas.

according to his means, some of the larger restrict their dealings to the landowning classes, principally because the landlord can offer sound security in the shape of his land. It is this fact which accounts for the existence of landlords who were originally *mahajans*, but acquired property by selling up their debtors. Nevertheless, the acquirement of landed property is less often his object than it is in the case of some other classes of moneylenders. His loans he regards solely in the light of investments, and it is this fact which explains his reluctance to accept payment of a debt in instalments, since such repayment would reduce his income and put him to the trouble of finding a fresh investment for the money thus repaid. His point of view in this matter may be unprincipled, but it is certainly intelligible.⁽¹⁵⁾

101. The importance of the *mahajan* in rural life varies in different parts of the province. In Basti, for instance, though there are village *banias*, there appear to be few professional moneylenders of sufficient importance to be classed as *mahajans*. They are also comparatively unimportant in the hills. But over most of the province their influence is great and their operations extensive. In Rae Bareilly, for instance, the *mahajan* has provided nearly 60 per cent. of the total debt.

102. *The sahuکار*.—The business of both *bania* and *mahajan* lies entirely in the country. Their clients are villagers; they deal in agricultural produce; and they themselves live, almost always, in some village or country town. There is, however, a third class of rural moneylender, whose rural transactions form only a part of his business, and who is, in every sense, essentially a city man; and, as compared with the average *mahajan*, a financial magnate. To this class of moneylender we have attached the label of *sahukar*. His rural transactions, for the most part, take one of two forms. *Firstly*, he is prepared to advance money to landlords on the security of a mortgage of their landed property, which mortgage may be simple or usufructuary; in the latter case the property is often leased back to the mortgagor. And *secondly*, it is he who finances the *mahajan* when he requires accommodation. Being a big man, he deals as a rule only in big sums, but there are some *sahukars* who do not disdain relatively petty transactions. His rates of interest are comparable with those of joint-stock banks: they usually lie between 6 and 12 per cent. per annum, but are occasionally as low as 4½ or as high as 24, according to the security offered. But a low rate of interest on a mortgage often indicates that

(15) One is reminded of Lowell's lines—
 "I don't believe in principle,
 But, oh! I do in interest."

the moneylender's primary object is to secure the land. In some districts in the west, *sahukar* is the name given to a class of village *mahajans*, who work on a system of their own.—one man, one moneylender. This type of *sahukar* contracts with his client (*asami*) to supply him with money or grain from time to time as he needs it, whilst the client contracts to deal with no other moneylender.

103. *The peripatetic moneylender.*—As we have seen, the village moneylender, whether *bania* or *mahajan*, usually confines his transactions to a definite tract where he is well known, and to a definite clientèle whom he knows well. But there are also moneylenders who wander about the country seeking custom, and will deal with anybody whether they know them or not. Some of these peripatetic usurers are respectable enough: others are dangerous nuisances. All alike are rapacious in their dealings.

104. *The qistwala.*—The most important of these wandering moneylenders is the *qistwala* or *qistia*, who in the western districts also goes by the name *rahtiwala*, in Oudh by the name *ugahiwala*, and in the eastern districts by the names *hundiwala* or *tharakkar*. He works a system usually known as *qist* or *ugahi*,⁽¹⁶⁾ both words meaning "instalment." The oldest and still the most common form of *ugahi* loan is one of Rs. 10 repayable in twelve monthly instalments of one rupee each, which fact supplies a sufficient explanation of the system itself. Recently, as the result of competition amongst the Lucknow *ugahiwalas*, the number of instalments has been reduced from twelve to eleven. From accounts given by writers on ethnology⁽¹⁷⁾ it seems possible to conjecture that it was originally invented by the Bohra fraternity of the north-western districts, who still carry it on, though they now have many competitors.

The business is most fully organised and most widely spread in the west of the province, where it is mostly in the hands of a group of *Sahns* residing in Moradabad. Their agents roam the country to collect instalments or make fresh advances, as far east as Lucknow, as far west as the Jumna, and even across it into the Punjab. Elsewhere this *qistbandi* business is handled by all sorts of moneylenders, both in town and country, or by wanderers such as the *Kabuli* and the *Harhia*, presently to be described. It is, in fact, prevalent in almost every part of the province except the hills, and is growing increasingly

(¹⁶) Other names are *bassej* (traffic): *rakat*, *rahti* (water wheel—from the "revolving" nature of the transactions).

(¹⁷) See Crooke, "*Tribes and Castes of North-Western Provinces and Oudh.*" s. v. *Bohra*. Another name for Bohra is *Rahhi*. The Bohras claim to be *Paliwal* *Gaur Brahmins*.

popular. Its scope, too, has been enlarged; whereas it was restricted in the past to the petty ten-rupee loan already mentioned, it is now extended to multiples of ten rupees, and a loan of Rs. 200 is not uncommon.

105. The profit that accrues from this *qistbandi* business is enormous; on the ten-rupee loan, for instance, it works out at 44·44 per cent. per annum gross, and after allowing for bad debts and other expenses can rarely be less than 25 per cent. But the burden on the debtor is none the less light: for he can obtain as much money as he is likely to want, and repay it in small instalments that cause him no trouble. Apart from that, the loan is made to him, and the instalment collected from him, at his own door. The popularity of this type of loan is not surprising.

106. *The Kabuli*.—"The Kabuli is so called because he is almost invariably a predatory visitor from Afghanistan and the frontier. He lends money to the unfortunate poor, either as an operation by itself, or tempts his victims into buying his wares, generally cloth. In either case, having got them into his toils, he is an usurer of the worst type, and is all the more dangerous by reason of his truculence and readiness to resort to force."⁽¹⁾ This remark quoted from the evidence of the Upper India Chamber of Commerce sums up the general opinion regarding these wandering ruffians. They are known indifferently by the names Kabuli, Punjabi, Mughal and Agha, the last being an honorific title meaning "master." Their primary business is dealing in cloth, but they also make small loans in cash, principally to those who find it impossible to borrow money from anybody else. They cajole or coerce the villager into buying cloth or taking a loan; in the former case they refuse to accept immediate payment, even if it is offered, and then go on their way, returning some months later to collect their dues. If the debtor fails to satisfy the Kabuli at once and in full, then the gang proceeds to take strong measures. Until a debt is paid, they will picket his house, prevent either him or the other inmates from leaving it, compel him to feed them, and intimidate him in every possible way. On the slightest provocation they will assault him, for as one witness says, the Kabuli's only argument is his cudgel. Recently in the east of the province they have taken to something like the *qistbandi* system, advancing Rs. 4 or multiples thereof at seed time and realizing Rs. 6 at harvest. If the money is not paid when demanded they charge penal interest at the rate of two pice per rupee per day. The villagers hate and fear them, though they are rarely strong enough.

⁽¹⁾ Evidence, vol. IV, p. 45.

to resist them; one *taluqdar* has forbidden them to enter his estate and made himself responsible for any debts due to them by his tenants.

107. *The Harhia*.—The eastern districts are overrun by gangs of wandering usurers from Bihar. These folk are known by the name *Harhia* (also spelt *Hurha* and *Haria*). They lend money in small sums and, according to one witness, also deal in cattle. They, like the *Kabuli*, lend money or sell their animals, and after some months return to demand payment. Their usual rate of interest works out at 37½ per cent. for ten months. If payment is delayed, their habit is to sit *dharna*⁽¹⁾ at the door of the debtor; in other words, they picket his house until he pays. Meantime, they compel all their debtors jointly to feed them. In short, though they are less violent than the *Kabulis*, they are quite as troublesome.

108. *The cattle dealer*.—*Beopari* is a name given to wandering cattle dealers. They are mentioned as far east as Patabgarh and as far west as Meerut. They sell their animals on credit. The price is payable in four half-yearly instalments, usually at the rate of Rs. 150 for Rs. 100. They also make petty loans at extortionate rates of interest; for instance, for an advance of Rs. 75 they will demand a total payment of Rs. 150 in three half-yearly instalments.

109. *Miscellaneous moneylenders*—(1) *The Banjara*.—Tradition holds that the *Banjaras* were originally the grain-carriers of the Mughal armies, and in some parts of the province they are still engaged in the carrying trade. In the submontane tracts, however, they are grain dealers. They are also the principal moneylenders of the Tarai and Bhabar.

(2) *Behwari*.—It is said that in some parts of the Meerut district a new class of moneylenders has arisen, called *Behwari*. They are butchers by profession, and are much more exacting in their dealings than the ordinary moneylender. They too demand repayment in instalments: for a loan of Rs. 100 they demand Rs. 200 in four half-yearly instalments of Rs. 50 each, with a penal rate of two per cent. per mensem if the payment of any instalment is delayed.

(3) *The pherwala*.—There is a host of travelling pedlars and hawkers (*pherwala*) who travel round the villages selling cloth, spices and other articles. Though they will accept cash payment, they prefer to sell on credit, partly to suit their customers, principally to enable them to charge higher prices.

(¹) The practice of sitting *dharna* is commonest amongst Brahmins, and usually involves fasting,—with the intention of saddling the debtor with the sin of a Brahmin's death. It is a practice made punishable by the Penal Code.

(4) The *khandsali*, or dealer in sugar, in Rohilkhand is also a money-lender of great rapacity. His method is to advance to the cultivator a sum sufficient to finance his crop on condition that he receives the juice after extraction, at a forward rate which he fixes himself. His rate of interest is not exorbitant, but he makes up for it on the price. The general effect of the system is that the cultivator hands over all his profits to the *khandsali* in return for the means of subsistence and the working capital required to grow the cane.

(2) *The amateurs.*

110. *Miscellaneous usurers.*—In present conditions moneylending is the only form of investment which is both profitable and readily available to a villager who possesses surplus funds; and it is not, therefore, surprising that the domain of the professional moneylender has been invaded by many amateur competitors. There is, firstly, a miscellaneous horde of petty Shylocks, who neither need nor deserve more than a passing mention. Pensioners, both civil and military; temple-priests; petty officials, such as patwaris and schoolmasters; estate servants, such as ziladars; village servants, such as the Nai; Chamar labourers; Muhammadan *faqirs*,—are all referred to as moneylenders in our reports. We hear little of their methods, but we need not doubt that they imitate all the ways and works of the professional, and, at times, improve on them.

111. *The agriculturist moneylender.*—Most of the *mahajan's* competitors, however, and those the most important, are drawn from the very classes which supply him with the great majority of his clients. The rich landlord lends to the poor landlord, to his own and other people's tenants; the rich tenant lends to his own and other landlords, as well as to his fellow-tenants. The methods of these agriculturist moneylenders may not differ materially from those of the *mahajan* in such matters as security, the renewal of bonds, the rates and calculation of interest; but they necessarily regard their operations in a somewhat different light. Moneylending to them is not always a mere investment: it often has an ulterior motive, which may be good or may be bad.

112. *The zamindar moneylender.*—The importance of the landlord as a credit agency varies greatly. In the first place, over the province as a whole the proportion of indebted landlords is not less than 55 per cent., and the number of landlords who can afford to lend is, therefore, relatively small. Again, out of that number many of the wealthiest can and do find other investments for their money. Nevertheless, it is safe to say that in every part of the province, a substantial

proportion of the total agricultural debt is financed by landlords. It is highest in Sub-Himalaya, West (50 per cent.) : over the province as a whole it amounts to 40 per cent. of the total debt.

113. Transactions between landlord and landlord are probably rare. If a landlord's needs are petty, his self-respect will generally prevent him from disclosing them to a fellow-landlord. If his needs are large there are few landlords capable of supplying them. The landlord who wants accommodation will invariably seek it from the professional money-lender. When one landlord does lend to another, they are usually co-sharers or close relatives, and the transaction is made rather as a matter of friendship than as an investment,—unless, indeed, his ultimate object is to extend his landed possessions.

114. But transactions where the lender is a landlord and the borrower a tenant of his own or somebody else's are common. There are landlords who regard it as part of their duty to finance their tenants. One important Oudh *taluqdar*, for instance, makes a practice not only of lending freely to his tenants, but of charging them a low rate of interest (12 per cent. per annum). But most advances of this kind are a pure matter of business; and obviously the most dangerous creditor from whom a tenant can borrow is his own landlord, since the latter thereby acquires a double hold over the former. If a tenant pays his rent, but not the interest on his debt, a landlord can sue him in a civil court. If the tenant pays the interest on his debt, but not his rent, the landlord can sue in a revenue court. Worse still, the landlord can, if he chooses, credit all payments to the debt and so keep the tenant in arrears with his rent, which puts the latter's crops in his power by distraint, and gives him the right to eject him if he pleases. Again, there is evidence before us showing that occupancy tenants have occasionally been compelled to surrender their rights in liquidation of a debt to their landlords. There is also one instance on record from the Basti district, where a landlord, being on bad terms with two contumacious tenants who refused to pay their rents, compelled them ultimately to execute a promissory note for the amount of the arrears, thus enabling him to proceed against them either in the revenue or civil court as suited him best. The landlord in this particular case was himself a professional moneylender, but the practice is probably not uncommon.

115. *The tenant moneylender.*—Though thirty years ago there were possibly stray cases of tenants who lent money, the practice seems to have become common in comparatively recent times. At all events, it is now well established in most parts of the province. The proportion of the debt financed by tenants is often considerable. In Budaun, for

instance, it is put at 48 per cent. of the total, in Rae Bareli at 20 per cent., and in Bara Banki at 26 per cent. In three villages of the Benares district, from which we have had detailed reports, the advance is nearly Rs. 27,000, and 42 per cent. of the total debt. In two Basti villages it amounts to nearly Rs. 5,000, and 38 per cent. of the debt. It appears to be rarest in the western districts. Over the province as a whole, it amounts to 14 per cent. of the total debt.

116. From some points of view the creation of this new class of moneylenders is satisfactory. *Firstly*, it proves that the tenantry have unexpectedly large reserves; *(*)* *secondly*, it proves the existence of resources available for investment, the existence of which had not previously been suspected; *thirdly*, it means that money which in former days would probably have lain idle, now continues to circulate and to work. But there are also drawbacks. If a tenant has money to spare he would do better to put it into his own land, or use it for some industry subsidiary to agriculture. As it is, he is at best putting it into somebody else's land, at worst he may be putting it into somebody else's lawsuit. Most commonly, perhaps, he is using his money to ruin a neighbour. It is the thrifty and skilful tenant who can save money for investment; it is the thrifty and skilful tenant who desires to acquire land of his own or to extend his holding; and land hunger drives him to courses that cannot be commended. He will take up a mortgage on some indebted landlord's property, in the hope that it will some day come under the 'hammer' and fall into his hands; more, we have evidence to show that he will even run into debt himself to enable him to take up such a mortgage. Or he will lend a fellow-tenant money on a usufructuary mortgage of the type which becomes effective by a sublease, and thus secure the debtor's fields for himself for the legal period of three or five years. And, to effect his object, he will not hesitate to use every trick of the *mahajan's* trade. In fact, after the Kabuli, the tenant in search of land is the most merciless and exacting of all usurers. The practice does not, as so often alleged, result in inefficient farming. On the contrary, since the mortgagee is obviously the better man of the two, the change is often advantageous so far as the land itself is concerned. But the advantage is bought at the cost of somebody else's ruin, of much suffering to somebody else's family, and often of bitter ill-feeling. Incidentally, the mortgage of an occupancy holding, except in certain restricted areas, is entirely illegal.

117. Most agriculturist moneylenders seem to belong either to the Brahman or the Kurmi caste. The former are principally landlords.

(*) These are not necessarily derived from agriculture. See Chapter I, paras. 61-62 and 67-68.

the latter principally tenants. The Brahman, of course, has a subsidiary income, apart from the proceeds of his farm, in the shape of his caste and priestly dues; whilst instances are recorded where the capital used by Brahman moneylenders has been inherited from relatives who have been successful in other walks of life. The Kurmi is by far the most thrifty and one of the most skilful of all cultivating castes. More than one report has much to say of his good qualities. His own indebtedness is generally small. In the five districts for which we have returns from settlement officers as many as 67 per cent. are entirely free from debt.⁽²¹⁾ He generally has money put by at the end of a year. He has his ambitions, which are always in the direction of acquiring additional land. It is reported from one registration office in the Basti district where the Kurmis are particularly strong in number, that of the total sum which passes from lender to borrower in a certain tahsil, the Kurmi contributes a full half. Other agricultural castes mentioned as lending money are the Koiris, Muraos, Ahirs and Rajputs. The Koiri and Murao are both market gardening castes and make large profits. The Ahir is almost as skilful a cultivator as the Kurmi, and generally has the advantage of a subsidiary occupation in dairy farming. Rajput moneylenders are usually landlords. There are many rich Rajputs in Oudh, but as, thanks to his extravagant habits and careless cultivation, the Rajput is probably the most indebted of all castes, the volume of Rajput money-lending cannot be large.

B.—The link between country and town.—Marketing agencies.

118. *The beopari.*—By the time when the crops are on the threshing floor the farmer is usually in urgent need of money. His agricultural debt is at its highest; his rent is due; quite possibly he has had to finance some social function or religious ceremony. And both his money-lender and his landlord are impatiently awaiting payment. Were he to market his produce himself he must borrow anew to pay the cost of transport; and, since he cannot satisfy his creditors till he has himself sold, additional interest would accrue on his old debt. As a rule, therefore, he prefers to sell on the spot to a middleman. It is only a well-to-do farmer who can afford to wait for his money, or an unusually enterprising one who ever tries to market his crops himself. This middleman is known everywhere as the *beopari*. He may be a grain-dealer from the nearest *mandi*. He may be a local trader or *mahajan*. Very occasionally he may be the agent of some wholesale grain merchant.

⁽²¹⁾ Evidence, vol. II, p. 7.

But, as often as not, he is himself a farmer, tenant or small-landlord who makes use of his bullock cart in this way to supplement his agricultural income. He is then known as a *larhiwan* (cartman). Kurmis, who rarely miss an opportunity of making money, are said to be particularly active in this trade. Here, as in the moneylender's business, we find competition between professional and amateur.

119. The *beopari*, after examining the heaps of grain and the inevitable bargaining, settles a price with the farmer. In this he is assisted by the *taula*⁽²²⁾ (village weighman), whose business it is to know the quality and quantity of grain that every cultivator has to sell. He generally pays the full price at once: sometimes, however, he only pays a part of it, and the rest after he has himself sold.

120. The *beopari* is often alleged to be a dishonest scoundrel who takes advantage of the rustic's ignorance to cheat him. The allegation, no doubt, is sometimes true, but not invariably. The Indian cultivator is not always so easily cheated: he knows well enough what price he ought to receive, and is quite capable of calculating whether it will pay him better to accept the *beopari's* offer or to market his grain himself. The *beopari's* main advantage lies in the fact that the farmer wants money, and wants it quick. And it is from this that his profit is mainly derived, together with his special knowledge of his business, which enables him to effect economies which the cultivator would fail to secure.

121. At the beginning of the chapter it was pointed out that there are few moneylenders who do not combine some other line of business with moneylending. More important, however, than the mere fact of combination is the fact that the two lines of business are often interconnected. At this stage it is advisable to pause and re-examine the rural credit agencies from this point of view; for as our survey passes from country to town the inter-connexion becomes more and more important.

122. In this respect the rural credit agencies fall into several groups.—

(1) *Credit agencies with only one rural line of business, apart from agriculture.*—This group includes (a) the *qistwala*, the *sahukar* and the *banjara* who have other lines of business, but exercise them only in the town; (b) the *behwari* whose second profession is that of butcher; (c) the miscellaneous amateur usurers mentioned in para. 110 who all have secondary occupations, but none of them connected with trade or com-

⁽²²⁾ A village servant appointed by the *zamindar*. He "is generally an honest man, or at least supposed to be so by the *zamindar* who appoints him." Evidence, vol. II, p. 265.

merite; (d) the *phericala* who has only one business; (e) most *zamindar* moneylenders, namely, the richer men who would regard trade of any kind as a degrading occupation.

(2) *Agencies with two credit lines of rural business.*—The types of moneylenders who fall in this group are (a) the village *bania*, (b) the *Kabuli*, (c) the *Harhia*, (d) the cattle-dealer; all of whom both lend, and sell some article or another on credit.

(3) *Agencies that deal in rural credit and urban trade in rural commodities.*—This class consists of (a) the *mahajan*, (b) the tenant moneylender, (c) some *zamindar* moneylenders, who all follow the trade of *beopari*.

These classes, of course, are not absolutely definite. For instance, there are, no doubt, tenant moneylenders, who are not also *beoparis*, or *harhias* who do not sell bullocks. Nevertheless, it is clear from the statement given above that a large majority of all rural credit agencies are engaged in some other form of business, which itself is either directly or indirectly of a rural character.

123. *The arhatia.*—Many of our witnesses have referred to the *arhatia*.⁽²³⁾ but few have described his functions. Moreover, such evidence as we do possess is conflicting. Yet, as he is one of the most important links in our chain of credit agencies, it is necessary to discuss his activities at some length.

The word *arhatia* means "commission agent" and all witnesses agree in attributing this character to him. They differ, however, respecting the precise nature of the agency.

(1) The Upper India Chamber of Commerce tell us that his original function was "commission agent in the town of the village *mahajan*."⁽²⁴⁾ As such, presumably, he fulfilled a dual rôle: he would act as intermediary between *mahajan* and *sahukar* when the former required financial assistance, and also sell the *mahajan's* grain for him.

(2) From Hathras, we are told of two kinds of *arhatia*. The first, known as *kachcha arhatia*, is a mere go-between, whose sole function is to introduce the *beopari* to a purchaser, and to arrange a bargain between them. He never buys on his own account: he is a middleman in the most literal sense of the word. This manifestly represents a development of his original function; instead of working for a particular *mahajan* or *mahajans*, he has become independent, and competes with his fellows for the *beopari's* custom, on which he establishes a claim by advancing money to him. The second, who is called *pakka arhatia*, is a true commission agent, the accredited local representative of some wholesale firm in a distant centre, who buys (and sells) in his own market on

⁽²³⁾ Also spelt *arhtiya*, *arhatiya*, *arhti*.

⁽²⁴⁾ Evidence, vol. IV, p. 44.

that firm's behalf. It follows, of course, that the purchaser to whom the first type of *arhatia* introduces the *beopari* may be, and no doubt often is, an *arhatia* of the second type. The great difference between the two is that the *kachcha arhatia's* object is to sell dear, and the *pakka arhatia's* object is to buy cheap. This system is obviously clumsy and wasteful: there is no possible reason why the *beopari* should not deal direct with the *pakka arhatia* or the local grain dealer.⁽²⁵⁾

(3) The *pakka arhatia* is common everywhere; most large wholesale firms have representatives of the kind in all principal distributing-centres. Nor are their functions confined to mere buying and selling: it is they, for instance, who keep their constituents informed of fluctuations of prices.⁽²⁶⁾ In other trades than grain they never buy on their own account. But the grain *arhatia* does; or possibly it would be more correct to say that the same man is often both dealer on his own account and agent of some foreign firm. It is this which explains a somewhat loose use of the word *arhatia* found in some of our evidence, as meaning the wholesale trade generally.

(4) Other witnesses describe the *arhatia* in terms which suggest that he is a commission agent for the retail trade. We are told, for instance, that retail cloth dealers buy their goods through the *arhatias* of Bombay and Delhi. In this case the *arhatia*, as such, holds no stock of goods, but operates solely on the account of others.

As it is important to make clear the position of the *arhatia* in the general credit system, we now proceed to give a brief account of his operations in Hathras, where they are most varied.

124. The *beopari* on reaching the market takes his wares to a *kachcha arhatia*. He proceeds to find him a purchaser, who may be some local grain-dealer, or a commission agent. For this purpose, he uses the services of a *dallal* (broker), whose special function is to keep track of all potential buyers and sellers, and to bring them together. *Beopari*, *arhatia*, customer and *dallal* then meet at the *arhatia's* stall. They proceed to bargain in a curious manner described in one of our reports,⁽²⁷⁾ the object of which appears to be to keep the terms secret from the outer world. The process is superintended by the *dallal*. When a bargain has at last been struck, the wares are weighed and removed direct to the warehouse of the customer. Before this is done, however, certain charges

⁽²⁵⁾ The two types of *arhatia* are also to be found in the Benares markets and doubtless elsewhere. In Bombay, their various duties and responsibilities have formed the subject of High Court rulings. See Pollock and Mulla's *Indian Contract Act* (1919) pages 702 *et seq.*

⁽²⁶⁾ When I was Director of Civil Supplies in 1918-19, some of the Cawnpore wholesale grain-dealers kept me regularly supplied with information regarding the prices of all the principal grain markets in Upper India. This information was obtained, usually by wire, from their *arhatias* in those markets. (R. A. H. B.)

⁽²⁷⁾ Evidence, vol. II, p. 286.

have to be paid, partly by the *beopari*, partly by the *kachcha arhatia*. They are described elsewhere; here it will suffice to mention that though some of them appear to be legitimate charges in the nature of wages or tips for services rendered, others, especially the charitable or religious charges, seem out of place in a business transaction. The *kachcha arhatia's* commission is based on the value of the transaction at the rate of 25 annas per Rs. 100. This is not all profit. Apart from certain customary payments of the nature of tips, he has to pay the weighman's charges, the expenses of his own stall, and especially the expenses of entertaining his *beopari* customers. The last is an important matter. Competition is so keen that the broker must treat a client well if he is to secure or retain his custom. He must supply, we are told, comfortable accommodation, good drinking water, and tobacco. The expenses, therefore, of the *arhatia's* business are considerable and his profits by no means extravagant.

125. *The arhatia as a credit agency.*—We have seen that the *beopari* usually pays the cultivator the full price for his crop at the time when he buys it. He is enabled to do this because, when necessary, the *arhatia* with whom he deals will advance him money and indeed is only too anxious to do so, as thereby he is sure of retaining the *beopari's* custom. As a further incentive, the interest is generally low. And this process involves considerable risk to the *arhatia*, since there is little chance of recovering his dues should he require to do so. The *arhatia* also affords credit to the retail trade, in a manner that will best be understood from the following example. Writing of the hills, a witness says "The big retail dealers purchase cloth direct from Bombay and Delhi through *arhatias* or commission agents. These *arhatias* advance money for the purchase of cloth to the extent of three to four-fifths of the amount purchased Delhi *arhatias* charge *arhat* or commission at one per cent., Bombay *arhatias* at eight annas per cent Interest is charged at $7\frac{1}{2}$ per cent. by both."⁽²⁴⁾ In other words, these commission agents are prepared to finance their customers' purchases to the extent of 60 to 80 per cent. of the cost. Again, the *arhatia* who is acting as commission agent for some wholesale firm in another centre often affords credit by purchasing for them with his own funds.

126. The *arhatia* who is in need of funds can obtain them in various ways. If money is due to him from firms in other markets in respect of goods bought on their account, he obtains his money by means of a demand *hundi* drawn on his debtor. If he needs temporary accommodation, he either obtains it from the bank on the security of hypothecated

(²⁴) Evidence, vol. II, p. 46. This rate is low : the minimum is usually 9 per cent.

goods, or from a *sarraf* on a *hundi*, or from one of the larger *sahukars* on a promissory note.

127. In Hapur, Hathras, Agra, Meerut and other grain markets in the west, there are *arhatias* who have specialized in the business of agricultural storage in *khattis* (grain pits), which they use both as a credit instrument and a means of speculation. The *arhatia* in his capacity as a grain dealer or as commission agent for some outside firm (if he happens to be holding stocks for them), places the grain which he purchases in a *khatti*, and on the security of that *khatti* can obtain an advance from a bank to the extent of 66 per cent. of the value of the grain thus stored, on which he has to pay interest usually at a rate of 7 to 7½ per cent., or 1 per cent. over the bank rate. *Khatti* speculations, known by the name of *badni ka satta*, take the form of contracts for future delivery and are based on fluctuations of price. It is unnecessary here to say more of the system either of *khattis* or of *khatti* speculation, which will be found fully described in our evidence.⁽²⁹⁾

128. It is obvious, therefore, that the *arhatia* fulfils a very important function in the credit system. It is chiefly he who ensures that as soon as the harvest is ready for marketing, the price of it flows directly and rapidly into the rural areas, where money is badly wanted, thus enabling the cultivator to pay off his dues both to moneylender and landlord. It is he, again, who facilitates the movements of commodities either from the producer to the wholesale dealer, or from the wholesale dealer to the retail trade. He probably finances 75 per cent. of the internal trade of the province. In short, he is a middleman-financier, and his importance in that respect has increased as banking facilities have developed. He is no longer dependent solely on *sahukars* or *sarrafs*. Both joint-stock banks and the Imperial Bank are now willing to finance him. It is said that in the grain mart of Hapur alone banks advance over 50 lakhs in the wheat season to the *arhatias*. The Chamber of Commerce indeed anticipate for him a still more important future. They say that there is a distinct tendency for the *arhatia* to take the place of the *mahajan* and the *sahukar*, thus shortening the credit chain, and bringing the *sarraf* at the top into a relationship only once removed with the cultivator at the bottom.

C.—Urban credit agencies. (1) Moneylenders.

129. *The sahuکار*.—The *sahukar* may be described as a respectable moneylender who specializes in the making of cash advances against

⁽²⁹⁾ Evidence, vol. II, pp. 219–21. (Hapur). Evidence, vol. II, pp. 269–70 (Hathras). We understand that at present banks are advancing up to 75 per cent. of the value of the grain.

the security of immoveable property, both rural and urban. The nature of his rural transactions has already been described; and that account may be taken as applying also to his urban transactions of the same kind. He has also, however, two other lines of business. *Firstly*, he is ready to lend on a promissory note if he knows his client to be respectable and financially sound. *Secondly*, he lends against the security of ornaments. It is he who is partly responsible for the financing of small industries. It is alleged that he is not above charging brokerage (*nazrana*) of 2 to 5 per cent. on a loan when he sees a favourable opportunity. But generally speaking his transactions are fairly conducted, though his charges are seldom moderate. When he himself needs financial assistance, he seeks it from the *sarraḥ*.

130. *The sarraḥ*.—The word *sarraḥ*⁽²⁰⁾ (anciently spelt *shroff*) is used to designate two different types of credit agency, which, following one of our witnesses, we call the "small *sarraḥ*" and the "*kothival sarraḥ*," respectively.⁽²¹⁾

(a) *The small sarraḥ* is primarily a bullion broker: his main occupation is to execute orders for ornaments and to advance gold or silver to goldsmiths or other citizens who require it, such as the Benares *tarkash*. His financial business consists mainly in discounting, rediscounting, and dealing in *hundis* of all kinds, but he also lends money on promissory notes or *sarkhats*, on mortgages of urban house property, and on the security of silver ornaments. One of his lines of business is the financing of small industries such as silk weavers and brassware manufacturers of Benares. He occasionally receives small deposits.

(b) *The kothival sarraḥs* only handle big business. They deal in *hundis*, advance money to landlords on mortgages of their estates, and to traders, small *sarraḥs*, and *sahukars* on promissory notes, or against goods, but always in large amounts. They do not deal in bullion as a rule, but advance money on the security of gold ornaments or jewellery. When in need of additional funds they rediscount the *hundis* in their portfolios with the banks, or accept deposits from selected clients, on which they pay interest at rates which vary with the demand or the season.

It seems, however, that the functions of the *sarraḥ* are undergoing a change. The *sarraḥ* business by itself no longer pays, as the result principally of the competition of joint-stock banks, who are now willing to deal direct with approved traders; whilst the *sarraḥ* deals mostly

⁽²⁰⁾ *Sarraḥ* is an Arabic word of which the literal meaning is money-changer, which was the principal occupation of the mediæval *sarraḥ*.

⁽²¹⁾ The Chamber of Commerce by *sarraḥ* mean the *kothival sarraḥ*, as do most other witnesses. The witnesses from the Income-tax department, however, use the term only of the small *sarraḥ*. Evidence vol. IV, p. 44, and vol. III, pp. 269 and 288 *passim*.

with the smaller merchant, who, (so the *sarrafi* himself says), is not now as straightforward in his dealings as he used to be. Many *sarrafs* are now looking for fresh lines of business or investment. Some are acquiring real estate, land or houses; some are taking to commerce, often as managing agents of commercial or industrial firms.

181. *The kothiwal*.—It is necessary to mention the *kothiwal* (a word of which the original meaning is warehouseman), though it is less the designation of any particular class of credit agency than an honorific title to which every prosperous merchant or financier aspires, and is applied as such to any firm that deals in money on a sufficiently large scale, whatever the precise nature of its dealings may be. The Moradabad *sahu*, whose principal line of business is moneylending on the *gist* system, the Jain bullion broker of Allahabad, and the Rastogi financial magnate of Lucknow are all *kothiwal*s, and their firms are *kothis*. Most *kothis*, however, are *sarrafi kothis*.

182. *Miscellaneous urban moneylenders*. (1) *The gistwala*.—The rural *gistbandi* system, described above, has been modified to suit urban needs. Four new types of loan are reported from Benares: in two cases the principal is repayable in monthly instalments of one rupee, in the other two it is repayable in daily instalments of one anna. The amounts are respectively Rs. 16 repayable in 20 monthly or 330 daily instalments; and Rs. 20 repayable in 25 monthly or 395 daily instalments. Another new type has recently been reported from Lucknow, where the instalment is two pice per rupee advanced per day for 34 days. The monthly *gists* are common amongst small shopkeepers, artisans of all kinds, and persons in receipt of fixed wages or salaries, such as government and railway servants, and mill employees. The daily *gists*, which are called *rojahi* or *rozai*, are restricted to the lower classes, *ekka* drivers, hawkers and pedlars of every kind, scavengers and other menials. Another form of advance, also known as *rozai*, common amongst such people, is a loan of a rupee or two taken in the morning and repaid at night.

(2) *The pawnbroker*.—Our reports indicate that the pawning of ornaments as a means of raising money is now relatively uncommon in the villages,—partly, it is said, because the poorer classes, who alone would be unable to obtain credit without such security, possess few ornaments; partly because a man would not rob his women folk of their jewelry unless he was in the direst extremity. In the towns it is still frequent. Some pawnbrokers working amongst Anglo-Indians and others who know English, have assumed high-sounding names such as "loan bureau" or "finance corporation." In some parts of the provinces,

pawnbroking seems to have become a speciality of women, especially widows; for instance, in Muzaffarnagar district, out of some 300 pawn-brokers over half were women. They are said to be both shrewd and successful, keeping a large margin as cover against bad debts; whilst the *purdah* system gives them a freedom of access to women borrowers that is denied to men, and also enables them to preserve the secrecy which all respectable women desire in such a matter.

(3) *Financing of small industries.*—It has been incidentally mentioned that the *sahukar* and the *sarraf* finances a certain number of small industries. Besides those already mentioned, amongst such industries are Moradabad brass, Agra shoemaking, some of the Lucknow industries, such as *kamdani*, *zardozi* and *chikan*, the Aligarh lock industry, and various industries in Allahabad. Others, however, neither require nor receive help from the ordinary moneylender, but are financed by traders or industrialists directly connected with the industry itself. The Firozabad glassworkers, for instance, are principally financed by the glass manufacturers of the same place, and the ebony-carvers of Nagina are financed by the traders who supply them with their wood. The woodcarving industry of Saharanpur is fortunate in requiring little or no credit of any kind.

(4) *Miscellaneous moneylenders.*—In the town, as in the country, there are many occasional moneylenders, belonging to all sorts of castes and occupations. Mortgages are said to be popular with these usurers, but they will lend on any security. The total amount of their lendings is probably large.

(2) *Banking agencies.*

133. *Indigenous bankers of the old kind.*—The distinguishing characteristic of a banker, as opposed to a moneylender, is accepted to be the receipt of deposits. As has been mentioned, many *sarrafs* will take deposits from selected clients when they themselves are in need of funds; but these transactions are rather of the nature of loans than of deposits, since they only occur on the invitation of the *sarraf* himself. There are some *sarrafs* who accept deposits more readily than others; but generally speaking, the *sarraf* is somewhat averse to this type of business, either because he considers it to be risky or because he regards it as damaging to his personal credit. The most enlightened is unwilling to receive fixed deposits to any large extent, even going so far as to fix a maximum limit, instead of the minimum limit usually enforced by joint-stock banks. In one case, the limit is Rs. 5,000. Nor, so far as our evidence goes, is it likely that the *sarraf* will abandon his conservatism in the near future. Nevertheless, the dividing line between moneylender and banker may conveniently be drawn where the

sarraf is willing to receive deposits when he needs them. The number of such *sarrafs*, or indigenous bankers as they may be called to distinguish them from other *sarrafs*, is estimated to be 237 in eight of the largest towns of the province. The figure, however, is probably exaggerated; we would put it at 250 for the whole province.

134. *Modern indigenous bankers.*—There are a certain number of indigenous bankers who work entirely on modern lines and transact all the kinds of business which the ordinary joint-stock bank transacts; especially, they take deposits both current and fixed, issue pass books and cheque books, and cash cheques. They work entirely with their own capital and deposits, and if in need of funds, obtain them either from other indigenous bankers or, with considerable difficulty, from joint-stock banks, who treat them as ordinary customers, unless they bring large business to them. At one time they also suffered considerable inconvenience because other banks refused to cash their cheques, but this difficulty is said to be disappearing as they become better known. In any case, it can always be overcome by printing on the cheque the name of the indigenous banker's own clearing agent.

135. The principal differences between these private banks and the ordinary joint-stock bank are that their management is entirely in the hands of a single proprietor or firm of proprietors, and that they publish no balance-sheet. Seven such banks have been brought to our notice. Of these, two have their headquarters outside the province; two certainly and possibly a third, seem to owe their development along modern lines to their connexion with the army; whilst two of these three are situated in the same place, at a military cantonment. Of the other four, two are situated in the hills.

136. *Government treasurers as bankers.*—In small districts where no branch of a joint-stock bank exists, it is common for the government treasurer to run a small banking business for the benefit mainly of the government servants stationed in that place. He receives deposits from them, though usually only on current account; and gives them the benefit of a pass book and cheque book, though the cheques, of course, have only a local currency. The government treasurers are themselves generally indigenous bankers of the *sarraf* type.

137. *Military bankers.*—The military shroff is a personage well known to history who, thanks to the readiness with which he lent money, has been the innocent cause of many an officer's ruin.⁽²²⁾

(22) Whilst making some researches in the old records in the India Office some years ago, I came across papers relating to the estate of an officer who died about 1850 owing four lakhs, mostly to a shroff. The officer was a captain.—(E. A. H. B.)

In 1921, I came across a case of an officer who was paying ordinary interest on a loan at 48 per cent., and penal interest at 75 per cent., and in 1922, another case of a young officer who paid Rs. 250 for a loan of Rs. 200 repayable in a month.—(M. L. S.)

Nowadays they have developed into bankers, of whom four have come to our notice. To some of them, such as the three firms mentioned above, their military banking is only a part of their business. Others are exclusively military bankers, who receive deposits only from the regiment to which they are attached, and therefore are similar to the government treasurers mentioned above.

138. *The joint-stock banks.*—Any bank registered under the Indian Companies Act would be called a joint-stock bank, whatever the particular nature of its business might be. There are in all 33 registered banks doing business in the province with 74 branches and six pay offices. Of these, seven have their head offices outside the province, namely the Allahabad Bank, the Central Bank of India, the Punjab National Bank, the People's Bank of Northern India, the Bank of Bihar, the Muslim Bank of India, and the Bhargava Commercial Bank. The rest are provincial enterprises, of which the most important is the Benares Bank. Eight of these are private limited liability companies, which are not bound by law to publish balance-sheets. It is unnecessary to deal at any length with their operations. It is sufficient to say that they do considerable business, not only in providing facilities for the accumulation of savings but for advances and financing the movement of goods both within the province and between this and other provinces. They are mainly commercial banks, and will not, of course, undertake large commitments on the security of immoveable property; experience has proved that type of investment to be thoroughly unsound. The fact, however, is mentioned because we have reason to believe that it is often made the subject of a complaint against these banks. There is, however, one exception to this rule. In Meerut there is a small joint-stock bank which besides receiving deposits, dealing in *hundis* and generally carrying on the ordinary business of a joint-stock bank, seems to specialise in financing industries and agriculturists, especially the latter, on the security of mortgage bonds. This bank, we are told, has advanced no less than Rs. 35,000 in a single village on land mortgages, though, for certain reasons connected with recent tenancy legislation, the profit on such loans has been so much reduced that the bank has suspended or greatly reduced this part of its business. Despite the unorthodox nature of its advances it seems to be in flourishing condition, and has recently increased its dividend from 9 to 10 per cent., whilst deposits have increased appreciably. A complete list of the banks in the province will be found in an Appendix.

139. *The exchange banks.*—Only two exchange banks have branches in this province, both in Cawnpore. They are the Chartered Bank of

India, Australia and China and the National Bank of India. They, of course, mainly devote themselves to the financing of the province's foreign trade; but they take rupee deposits, and also to some extent utilise their surplus funds in discounting inland bills.

140. *The Imperial Bank.*—It is unnecessary to say much of the transactions of the premier bank in India. It has, of course, enormous advantages of its own. It handles all government and local funds, and controls the currency chests in every place where it has a branch. This facilitates its remittance and inland exchange operations, and enables it to keep much smaller cash balances at its branches than would otherwise be necessary. It also enables it to make full use of any funds that may be spare from time to time in short-term investments. We are, however, principally concerned with the question whether it has made adequate use of its facilities. On this there are undoubtedly two opinions. All that we need do, however, is to state the principal facts :—

(i) The Imperial Bank advances against produce to approved commission agents and dealers at all places where the bank is established. The rates vary from 7 to $7\frac{1}{2}$ per cent., and are related to the official bank rate.

(ii) It provides finance for the movements of produce from the *mandis* to the consuming centres, chiefly by purchasing demand drafts representing the produce despatched from approved customers.

(iii) It also finances the movement of produce from distributing centres to the exporting ports by purchases of drafts and telegraphic transfers drawn on port towns. The bank claims (though some would dispute the claim) that its business is put through with rates so low that the benefit of free transfer of funds which they possess is to a very great extent passed on to the business community.

(iv) It provides cheap remittance facilities to the exchange and other banks engaged in the import trade.

(v) It has introduced in recent years a system of loans against gold ornaments. The rate of interest is 7 per cent. This venture has proved popular amongst agriculturists in other provinces, but, so far, not in this. It is specially interesting since it brings the top and bottom of the credit system into direct contact.

The number of branches of the Imperial Bank in the province is now twenty-four, with seven pay offices.

D.—Government credit agencies.

141. *The co-operative credit society.*—The present condition of the co-operative movement in the province will be considered at length in a later chapter, which it is neither necessary nor desirable to anticipate.

It is sufficient to say here that co-operation in this province compared with other provinces has to a large extent failed. We quote a brief passage from the evidence of Mr. Kharegat, the present head of the department :—"The best organisation for supplying credit to the cultivators is or at least should be the village co-operative society, which charges a lower rate of interest than the moneylender and maintains clear and public accounts. Unfortunately, they have not made sufficient progress in this direction for a variety of reasons. To some extent, the better class of cultivator is frightened by the hogey of joint responsibility. The chief reasons, however, are that accounts have not always been correctly maintained; that the members have had to put up with a great deal of personal inconvenience and even indignity; that they cannot get sufficient money for their requirements; that they have often to wait a long time for it; and that they are not educated to the necessity and importance of punctuality in repayments and prefer the more accommodating policy of the moneylender forgetting its ultimate consequences. At the present time, in a great many cases, the moneylender and the co-operative society flourish side by side, the cultivator using both to suit his convenience. He obtains part of his finance from the society and the rest from the moneylender."⁽²³⁾ In short, co-operation has not only been unsuccessful, but to some extent even positively injurious.

142. There are in the province 70 co-operative banks with a working capital of over 85 lakhs of which 23½ lakhs is share capital, 11½ lakhs constitute the reserve and other funds, 6 lakhs have been borrowed from societies or other co-operative banks, whilst the remainder, 44½ lakhs, has been borrowed from others, being principally from private individuals. At present co-operative banks have few dealings with joint-stock banks or the Imperial Bank; and there is no competition between them. The relations between co-operative banks and indigenous bankers are harmonious; many of these are directors; others have placed money in fixed deposit; a few act as treasurers and themselves keep the cash balances in current account. Indeed, many co-operative banks depend very largely on the support received from indigenous bankers in one form or another. That, of course, is all to the good. But obviously there is much to be done before co-operation can take its proper place in the rural credit system,—a fact which is all the more important, since we believe that any improvement in that system depends mainly on more and better co-operation. Fortunately past failures are not all pure loss; experience keeps a dear school, but her lessons are effective. And the department is on its mettle.

⁽²³⁾ Evidence, vol. III, p. 414.

143. *Government.*—As a credit agency, government operates in the rural field mainly by means of loans under the Agriculturists Loans Act and the Land Improvement Loans Act, which loans are known generally under the name of *tagavi*. The question will be fully examined in a later chapter, and in this case too, little need be said here. In normal years the budget provision for such loans averages 12½ lakhs. In times of distress the provision is, of course, much larger; for instance, in the two years 1928-29 and 1929-30, the total amount of *tagavi* distributed (almost entirely under the Agriculturists Loans Act) amounted to 190 lakhs. Most witnesses have condemned the present system. The principal complaint is that the money is not distributed till it is too late to be of use for the purpose for which it is intended,—a defect which it should not be difficult to remedy. Government also assists the agriculturist in bad times by remissions or suspensions of land revenue, which benefit the landlord directly, but as they are conditional on the remission or suspension of an equivalent amount of rent, also benefit the tenant. The amount remitted in the period mentioned above was 74 lakhs, and the amount suspended 54 lakhs. One witness has described suspension of revenue as equivalent to making a temporary loan without interest. A remission, of course, amounts to a free gift.

144. The Agricultural department also manage a large number of seed dépôts where the cultivator can obtain improved types of seed, and repay either in cash or kind as he pleases. He can, of course, also buy the seed outright. Recently, a new system has been introduced by which the cultivator who takes seed can repay in cash as if he had taken *tagavi* to buy it. The principal advantage that the cultivator derives from these dépôts lies in the quality of the seed which they supply.

145. Government also operates to a small extent in the industrial field, by making loans for the purpose of starting new or improving existing industries. It has often been argued that such intervention is unjustifiable; for if the industry is likely to be successful, it could obtain all the money it wanted in the money market, whilst if it was not likely to be successful, it ought not to be assisted. There are, however, industries of a pioneer or experimental nature in which no ordinary credit agency would risk its money, and which, if successful, may increase the country's wealth. It is justifiable for government to render assistance in such cases, even if in doing so it takes a risk that no credit agency would face.

146. *Summary.*—We began this chapter by the statement that credit in the United Provinces was devoid of all system; and the account which we have now completed proves that statement. Available

credit resources are broken up in small parcels all over the country. The spheres in which various agencies work overlap. There is little or no co-ordination between the various credit agencies, still less any conscious attempt to produce it. Nevertheless there is a certain coherence between the various parts of this shapeless whole. The chain of rural credit is in theory unbroken from the producer at the bottom, through the various grades of moneylender up to the *sarraf*. The chain of trade credit in respect of rural produce is similarly unbroken from the producer through the *beopari*, the *arhatia* up to the *sarraf* and the bank. But though the rural chain in normal times may be strong enough to hold, yet in bad times it contains many weak links that are apt easily to break. The resources of both *bania* and *mahajan* are small and easily exhausted, and when that happens, it is difficult to replenish them; whilst the resources of the agriculturist moneylender are automatically reduced to a minimum. Both chains suffer from possessing too many links; in other words, there are too many middlemen, some of whom might disappear with advantage. Finally, the system is far too complicated, mainly because so many of the credit agencies have dual functions.

APPENDIX.

List of joint-stock banks in the United Provinces.

Note.—The letter H in the list below means head office; the letter F means private joint-stock company.

Agra Bank, Agra.

Ajodhya Bank; five branches at Allahabad, Benares, Cawnpore, Fyzabad (H), Lucknow.

Allahabad Bank; 26 branches at Agra, Allahabad (2), Banda, Bareilly, Benares, Cawnpore (2), Chandausi, Dehra Dun, Fyzabad, Gorakhpur, Hapur, Hathras, Jhansi, Lucknow (3), Meerut, Moradabad, Mussoorie, Muttra, Naini Tal, Rae Bareilly, Shahjahanpur, Sitapur; and four pay offices at Deoband, Etawah, Ghaziabad and Hardoi.

Allahabad Trading and Banking Corporation, Allahabad.

Aman-o-aman Bank, Gorakhpur (P).

Banking and Ornament Manufacturing Company, Meerut (P)

Banking and Trading Union, Gorakhpur (P).

Bank of Bihar, Bankipore; branch at Benares.

Bareilly Corporation, Bareilly.

Benares Bank; three branches at Agra, Benares (H), Saharanpur.

Bhargava Commercial Bank, Jubbulpore; branch at Agra.

Byopar Sahayak Bank; three branches at Hapur, Meerut (H) Muzaffarnagar.

Central Bank of India, Bombay; three branches at Hapur, Lucknow (2), and two out-agencies at Hardoi and Bara Banki.

Co-operative Town Bank, Sultanpur.

Din Shah and Company, bankers, Lucknow (P).

Gorakhpur City Bank, Gorakhpur (P).

Imperial Bank; 24 branches at Agra, Aligarh, Allahabad, Bareilly, Benares, Bulandshahr, Cawnpore, Dehra Dun, Etawah, Farrukhabad, Fyzabad, Gorakhpur, Hathras, Jhansi, Lucknow, Meerut, Mirzapur, Moradabad, Mussoorie, Muttra, Muzaffarnagar, Naini Tal, Saharanpur, Sitapur; and seven pay offices at Amroha, Benares city, Cawnpore city, Ghaziabad, Hapur, Khurja, Lakhimpur.

Indian Banking Co., Meerut (P).

Lucknow National Bank, Lucknow.

Meerut Bank, Meerut.

Mofassil Bank; two branches at Basti and Gorakhpur (H).

Muslim Bank of India, Lahore; two branches at Agra and Cawnpore.

Muzaffarnagar Bank, Muzaffarnagar.

Naini Tal Bank, Naini Tal.

Oudh Commercial Bank; two branches at Cawnpore and Fyzabad (H).

People's Bank of India, Lahore; two branches at Cawnpore and Lucknow.

Punjab National Bank, Lahore; three branches at Allahabad, Cawnpore and Meerut.

Radha Swami General Assurance Bank, Agra.

Seth Narayan Bank, Jalesar.

Shankar Banking and Trading Co., Basti (P)

Superior Bank, Muzaffarnagar.

Trading and Banking House, Lucknow.

Unao Commercial Bank, Unao.

U. P. Trading Bank, Chandausi (P).

PART II.

AGRICULTURAL DEBT AND CREDIT.

CHAPTER IV.

THE PRESENT SITUATION IN RESPECT OF PRODUCTION.

A.—Causes, nature and distribution of debt.

147. *The inevitability of agricultural debt.*—In popular opinion agricultural debt is often regarded as something to be deplored, or even reprobated. Yet in no country in the world can agriculture entirely dispense with credit, or entirely avoid debt. Agriculture is an industry. Like any other industrialist, the farmer who wants to increase his assets,—to acquire additional land or live-stock, to erect a farm building, or to make a well or embankment—, must generally borrow the fixed capital that he requires for the purpose. Again, like any other industrialist the farmer must borrow working capital to meet his current requirements; indeed, his need is greater than that of most industrialists, since he must spend money for months on end before he receives any return. He must buy his seed and his manure, he must obtain cash to pay his labourers' wages, to feed and clothe himself and his family. When the harvest is reaped, and his crops are sold, he will pay his tradesmen, and cover his bank overdraft; and he will begin the process all over again next year. It is only a wealthy farmer who can work without credit, and in any country wealthy farmers are rare. Agricultural debt, therefore, is no more deplorable than any other kind of productive debt; on the contrary, except in the most favourable circumstances, it is everywhere and always inevitable. And the Indian farmer can no more avoid incurring it than can any other farmer in any other country.

148. *Difference between agriculture and other industries.*—There are, however, certain important differences between agriculture and other productive industries, which lie at the root of agricultural finance. *Firstly*, since a farm is a proprietary or leasehold concern, the credit available for that concern is limited to the credit of one man or one family. *Secondly*, the farmer's principal need is of fixed capital to finance the expansion or improvement of his farm, and that involves long-term credit, since such expenditure cannot possibly be repaid from the proceeds of a single crop, or even of several crops. But, *thirdly*, the only long-term security which the farmer usually has to offer is the farm itself. And that fact debars him from drawing for his requirements of fixed capital on the savings of the community at large; for the banks

which hold them must deal in short-term money and fluid securities. Any bank ready to lend long-term money on security so rigid as a land mortgage is courting disaster, as experience has proved more than once. The farmer, therefore, has to rely for help on the private moneylender, on the State, or the co-operative society. But neither State aid nor society's aid, for various reasons, is popular; and for all practical purposes, the measure of agricultural credit is the amount which one man can induce one other man to lend.

149. *Agricultural assets available as security for debt (a) other than land.*—Another disability from which the Indian farmer suffers is the flimsiness of the security which he can offer for his borrowings.

(1) His *cattle*, both draught and milch animals, are good security. But, unless they are particularly valuable, the cultivator always prefers to sell them outright rather than borrow money on them. The securing of debt on cattle is uncommon, except, perhaps, in the western districts; though occasionally a debtor holds a lien on an unborn calf, that practice is also rare.

(2) The *standing or future crop* is a vanishing asset, suitable to secure only the shortest of short-term loans; moreover, a farmer can rarely afford to pledge it for a single debt, since it is the source from which he must repay *all* his debts, including his rent.

(3) He can pawn various *moveable possessions*,—his agricultural gear, his household pots and pans, or the ornaments of his women folk. But of these the first two will only fetch a few rupees, nor can he do without either for more than a few days at a time. As for ornaments, only the higher castes possess any considerable quantity; and no caste, not even the lowest, would adopt this expedient except in the last resort.⁽¹⁾

(4) A possible security for debt is *personal service*; and thanks to the great demand for agricultural labourers amongst the higher castes, such security is valuable. It is, however, uncommon.⁽²⁾

(5) Another asset sometimes available to a farmer as security is the *jajmani*, the nature of which has been explained in a former

(¹) It is difficult to judge from the figures whether the practice of pawning ornaments is common or not; for such debt would always be regarded as dishonouring and would accordingly be concealed or minimised. Our statistics, taken as they were after two years of calamity, ought to show relatively high figures for such debt; but that is so in only a single case—a Meerut village where the debt secured on ornaments was Rs. 12,000 or 23 per cent. of the whole. Evidence, vol. II, p. 218.

(²) See para. 178.

chapter.⁽³⁾ A *jajmani* is heritable and transferable, and we have on record many cases where it has actually been mortgaged. Its use as security, however, is limited to the case where debtor and creditor are both of the same caste.

(6) Some tenants and many landlords possess *fruit trees*; and they, too, are frequently mortgaged. When the mortgage is on a usufructuary basis the mortgagee takes the fruit in lieu of interest.

(7) A farmer's *house property* usually consists of a mud hut with a roof of thatch or cheap tiles; only if he is relatively well-to-do will he possess a more substantial building. The tenant's house, moreover, is not his own. It belongs to the landlord and goes with the holding, and cannot be mortgaged or alienated. Even a landlord's house is of little use to a creditor. In a village, as one witness justly remarks, "everyone has his own house and does not require another, and the *sahukar* cannot derive any benefit from letting it or selling it"; and the securing of agricultural debt on house property is uncommon.

150. Of this variegated collection of assets the first four are suitable security for short-term loans alone, and none of them are freely or universally used. The last three are suitable for long-term debt, but one of them is seldom, if ever, used, whilst the other two can only be used in special circumstances. And, in practice, whatever the asset (apart from land), on which a loan has been nominally secured, it remains true that the creditor's real security is his client's reputation for honesty and punctual payment.⁽⁴⁾

151. (b) *Land mortgages*.—There remains the farmer's principal asset, his land. Ever since rights on land have been settled and land has acquired a selling value, the most common form of long-term credit throughout India has been based on land mortgage. It is available, of course, only to landlords and to a certain special class of tenants whose right is transferable,—the permanent tenure-holder and fixed-rate tenant in districts under permanent settlement, and the occupancy tenant in the single pargana of Kaswar Raja in the Benares district.

152. Two kinds of mortgage are found in the province, the simple and the usufructuary. Both are in themselves unobjectionable, but both are commonly used to the detriment of the debtor.

(i) A *simple mortgage* is usually made repayable after a fixed term, which varies, as a rule, between six months and five years, and rarely

(3) Chap. II, paras. 78-79.

(4) See Chapter III, para. 95.

exceeds the higher figure. But the creditor by compounding the interest at regular intervals and by refusing to accept repayment in instalments, makes redemption difficult even if the debtor desires to redeem; and most landlords are bad payers. The term passes, but the creditor allows the debt to run on until it exceeds the value of the land. Then before the statutory period of limitation (twelve years) expires he puts the debtor in court, obtains a decree and forces the sale of the property. Since he can bid up to the amount of the debt without spending fresh money, he can always defeat other competitors; for no other would bid above the real value. And he thus secures the land, which was probably his intention from the beginning.

(ii) So long as the rents and profits of the land transferred are taken as equivalent to the debt charges, both interest and sinking fund, a *usufructuary mortgage* forms an ideal security, since it provides for the automatic redemption of the mortgage. In this province, however, the profits are invariably taken as equivalent only to interest, and sometimes only to a part of the interest. In such circumstances the mortgage continues indefinitely, and redemption is impossible unless the debtor possesses other resources. In many cases his only hope is to borrow fresh money to redeem the mortgage; but that, as a rule, merely means the substitution of a new mortgage in place of the old. The most dangerous form of usufructuary mortgage is known as *bai b'il wafa* or conditional sale, by which, if the debtor fails to redeem the mortgage at a fixed date, the land becomes the absolute property of the mortgagee, who has only to obtain a declaration from the court to secure it. Instances of such mortgages, however, are uncommon; for no landlord will agree to execute such a deed except in the last resort. Usufructuary mortgages seldom have a fixed term; the period of limitation is 60 years.

153. *Subleases*.—With the exception of the privileged tenants mentioned above no tenant's right is transferable, and no holding can be legally mortgaged. But both the occupancy and the statutory tenant have a limited right of subletting: the former may sublet for a period of five years, the latter for a period of three,—in both cases, provided he himself has previously cultivated the land in question for a similar period. And tenants use subleases as a substitute for usufructuary mortgages. The mortgagee, in the rôle of subtenant, takes over the land, pays the landlord's rent, and either cultivates it or re-lets it to somebody else, very often to the mortgagor himself, at a competitive rent. The usufruct consists in the first case of the net profit, in the second of the difference between the two rents; in either case it is

appropriated towards the interest on the loan. Such a transfer is entirely illegal, rendering both parties liable to ejectment by the landlord; to the debtor it is also highly unprofitable. Since the usufruct is set against the interest only, the debt at the end of the sublease stands where it did at the beginning. The tenant is prevented by law from subletting the same land a second time, until he has cultivated it himself for several years. At the end of the sublease, therefore, he must redeem the debt or his creditor will obtain a money decree against him, and force a sale of his effects.⁽⁵⁾ But with a diminished holding, redemption is difficult; and the end is often relinquishment of the land by the debtor and its lease by the landlord to the creditor. For the change is to the landlord's advantage: he gets a better tenant for a worse; he can charge him a higher rent since the lease is new, whilst if the debtor held a right of occupancy, that right determines.

154. The illegality of these transactions makes it necessary to keep them secret, and it is accordingly impossible to discover whether they are numerous or not. Opinion on the subject differs greatly. The following considerations are relevant.

(1) No strong landlord, who prefers to choose the cultivators of his land for himself, would tolerate such a transfer.

(2) No peasant-proprietor who cultivates a holding as tenant of a fellow-proprietor, in addition to land of his own, would ever mortgage the former whilst he had any of the latter to mortgage; for the consideration money in the latter case would be much greater than in the former.

(3) From the point of view of the moneylender the decisive considerations are (a) the rent payable on the land sublet, (b) the period of the sublease. If that rent is high then the margin available for profit, whether he cultivates the land himself or re-lets it to another, will be too small to attract him, especially if the period of the sublease is also short; and that, in effect, debars all statutory tenants from carrying out such transfers, for both in Oudh and Agra their rents are relatively high,⁽⁶⁾ and in Agra the period is also only three years. The occupancy rent, on the other hand, is low, whilst the period is five years.

(⁵) Such transactions form the subject of two documents, a bond which mentions the debt but not the transfer, and a sublease which mentions the transfer but not the debt. A lawsuit, of course, would be brought on the basis of the bond without reference to the sublease.

(⁶) In Agra, however, the margin will increase as time passes, since enhancement is possible only at the end of twenty years.

In practice, therefore, only occupancy tenants can enter into such transactions. In one case from Muttra the rent charged by the mortgagee was Rs. 13-8-0 per acre as against the landlord's rent of Rs. 6-8-0, with the result that in four years his "interest" amounted to Rs. 308 on a debt of Rs. 225. Considering all the difficulties in the way of these transfers we may conclude, in agreement with some of our most experienced witnesses, that the practice is, on the whole, uncommon. Stray instances are recorded from many districts, but they are never numerous.

155. *Misuse of land mortgages as security.*—In practice, therefore, the agriculturist has only two forms of security,—personal security for working capital and land mortgage for fixed capital. Of these the former is not always, the latter is hardly ever, used to cover productive borrowings. A land mortgage is usually executed when some unsecured debt has become larger than the lender considers desirable, or else it serves to secure borrowing for some unproductive purpose which often has no relation whatever to agriculture. For in common parlance the term "agricultural debt" is used as including all debt, of whatever kind, that is incurred by an agriculturist. It includes, for instance, both a loan to build a well and a loan for a marriage ceremony, borrowings for the purchase of seed and cattle, and borrowings for food or for the payment of rent. It is important to avoid this confusion. A very considerable proportion of all "agricultural" debt is non-agricultural in character; and, if that were not so, then agricultural indebtedness in this province would be a matter of much less consequence than it is. "The really important point is not the nature and extent of credit for agricultural purposes or productive uses, but the nature and extent of credit for those unproductive and non-agricultural purposes which constitute the majority of objects of borrowings in India. And it is in this sense that indebtedness is a curse to the country."(*)

156. *Volume of debt secured on land mortgages.*—The material on which we have based our estimate of land mortgage debt and the method of calculation are both described in Appendix I, paragraphs 1 to 4. The total figure amounts to 70 crores of which 44½ crores is the value of simple mortgages and 25½ the value of usufructuary mortgages. The burden per cultivated acre is Rs. 20, of which Rs. 13 represents simple mortgages and Rs. 7 usufructuary mortgages; the latter figure compares favourably with the Punjab where, as the

(*) *Fields and Farmers in Oudh*, page 69.

result of a detailed inquiry carried out in 1920 the total value of usufructuary mortgages was found to be 35 crores,—an average of Rs. 12 per cultivated acre.^(*) As the consideration money for a land mortgage is often as high as Rs. 200 per bigha, it is obvious that the amount of long-term credit which can be based on land is far from being exhausted. When, however, it is remembered that much of this long-term credit is being wasted on unproductive purposes, the figure can only be regarded as undesirably high.

157. *Variations in the use of land mortgages as security for debt.*—As has already been explained, the Registration department's records do not distinguish between mortgages of land and mortgages of other property. We have, therefore, no definite information to show whether the number and value of land mortgages is increasing or not; and our witnesses, who were asked for an opinion on the subject, differed greatly. We have been supplied with figures showing the total number of mortgages registered during the twelve years 1917 to 1928 and their aggregate value. These are reproduced in Appendix I. Table III. The figures for the first two years are probably misleading, for though the number of mortgages is not much below the average number for the whole period, the value is lower than the average by about a crore and a half in each year. Excluding these two years, the average number of mortgages per annum during the period 1919 to 1928 is 107.156 and the average value Rs. 7,40,46,000. The number of mortgages has only been exceeded in four years, namely, 1919 to 1921 and 1926. The average value has been exceeded in 1919, 1922 and 1924 to 1926. In 1927 and 1928 both the number of mortgages and their value are much below average. Assuming, therefore, that the proportion between land mortgages and other mortgages is reasonably constant, there is no reason to suppose that the former are at present increasing. The figure of value was at its highest in 1926 (783 lakhs); in 1928, it was 726½ lakhs.

158. *General causes of agricultural indebtedness.*—The principal economic features of the province have been fully described in a previous chapter. We here recapitulate briefly those which have a special bearing on the present state of agricultural indebtedness.

(1) The province is peculiarly liable to climatic vicissitudes, and peculiarly susceptible to their results. Agricultural prosperity seldom remains unbroken for long. Allowing for the fact that agrarian calamities rarely affect the entire province at once, it can be said that, in any given part of the province, out of fifteen years three are bad and one is indifferent.

(*) Agricultural Commission's Report, page 418.

(2) Over 76 per cent. of the population depends on agriculture for a living. The density is great, and, outside the hill tracts, the pressure of man on the soil is everywhere heavy and in some places intolerable. Migration does something to relieve that pressure, but urban industry is not yet sufficiently developed to draw off any considerable part of the surplus population from the country to the town.

(3) The average holding is small. A certain number are large enough to enable the farmer to live in reasonable comfort and to store up in good years reserves with which he may tide over a period of distress. A large number of holdings are too small to support a cultivator and his family, unless he possesses some subsidiary source of income. Most holdings, however, are of such a size that the cultivator can make both ends meet, but only in good years and by unremitting toil. For a majority of the peasantry of this province life is a constant struggle between a crop and a crop; though for an appreciable number the severity of this struggle is mitigated by the possession of a subsidiary source of income.

(4) There is little spare culturable land to come under the plough, and little chance, therefore, of easing the present situation by an extension of cultivation. The greatest hope of improvement lies in some form of intensive cultivation.

(5) During the last thirty years and more, "the maintenance of the law and order, the defining and recording of rights in land, the continuous reduction in the proportion borne by the land revenue demand to the produce, the rise in the value of that produce and the growth of transferable rights in land have all contributed to enhance the credit of the landholder."⁽⁹⁾ We have evidence, which will be discussed elsewhere, that the most recent rent and revenue legislation in this province has, to some extent, diminished the landlord's credit, partly by reducing the value of land, partly by strengthening the position of the tenant; but this general proposition, as laid down by the Royal Commission on Agriculture, is still true.

(6) The same causes which have enhanced the cultivator's credit have also to some extent enhanced his material prosperity. This is proved partly by a progressive increase in the number and value of his possessions such as cattle and other animals, ploughs and carts; partly by the spread of moneylending as a subsidiary occupation amongst cultivators, a fact of which our witnesses have much to say.⁽¹⁰⁾

(9) Agricultural Commission's Report, page 432. The word "landholder" as here used includes both landlord and tenant.

(10) Quinquennial cattle census returns bear evidence to the increase in material possessions. The last was in 1925. The returns of the census recently taken in January, 1930 show a decrease, but not so serious a decrease as might have been expected after two bad years.

(7) But whilst his credit has been increasing the cultivator remains not only illiterate, but in the broadest sense uneducated. He not only is unable to keep accounts, but does not understand the advantage of keeping them. He does not realise the importance of equating expenditure to income. Meantime, he has to fulfil many religious and social obligations, to observe various feasts and festivals, to carry out various rites and ceremonies, all of which involve expenditure. He is the slave of custom, and must obey the decrees of custom in such matters. And his standard of living is extremely low.

159. Such is the economic situation of the cultivator of this province, a situation of which indebtedness should be the inevitable result. Everything is against him. Because he is a cultivator he must borrow to secure his crop. Because his holding is small and has to support more persons than it can feed, he must increase his borrowing to keep those persons alive whilst the crop is in the ground. His caste and his religion compel him to borrow a third time to meet the cost of customary festival or customary ceremony. As his debt grows repayment of it grows more and more difficult,—until at last some calamity comes upon him, repayment becomes impossible, and he sinks into a state of chronic indebtedness, from which death alone can release him. But as we have seen in an earlier chapter, if death releases him from debt it will not, if he is a Hindu, release his heirs. Ancestral debt forms an important part of the total volume of agricultural indebtedness. It is also a type of debt from which, in practice, the peasant finds it peculiarly difficult to free himself effectively.

160. *Objects of agricultural borrowing.*—The cultivator borrows for numerous purposes; our questionnaire mentioned fifteen and our witnesses have added a good many more. The purposes of borrowing vary considerably in their importance. For instance, agricultural implements are of a primitive kind and extremely cheap; we are told that Rs. 12 will buy a complete set. Borrowing for agricultural implements, therefore, is almost unknown. Similarly, the peasant rarely purchases manure whether in cash or on credit; all the manure that he requires comes from his own refuse heap and farmyard. It is only the cultivator who specialises in market gardening or the cultivation of potatoes, fruit or flowers that ever borrows money to purchase superior fertilizers.⁽¹¹⁾ Borrowing to finance litigation or to repay old debt or accumulated interest only occurs occasionally; though the sums involved are usually large. Finally, borrowing of fixed capital to make any sort of improvement, which usually takes the form of a

⁽¹¹⁾ Manure is also purchased for the potato crop in Farrukhabad.

well, is very uncommon. A single tenant can rarely afford the expense, whilst his fields are generally so scattered that it is impossible for him so to site a well as to benefit any large part of his holding; and, when tenants do build wells, several usually share the cost, and rarely borrow for the purpose. Landlords occasionally, though far too rarely, make improvements; but the type of landlord who would do so seldom needs to borrow.

161. The most common objects of borrowing are :—(1) the purchase of seed, plough cattle and milch cattle, and the payment of labourers' wages; (2) the purchase of food, cloth and other domestic necessities; (3) the payment of land revenue or rent; and (4) the financing of some social or religious function or ceremony.

162. *Agricultural debtor's calendar.*—The best method of realising the relative importance of these various causes of debt is to follow the cultivator round his agricultural calendar.

163 Before the rains break he must provide himself with plough cattle. Whether he will need to borrow for this purpose or not will depend almost entirely on the supply of fodder. Where it is plentiful he will usually have kept his animals and need not borrow at all; but where fodder is scarce, the farmer usually sells his animals as soon as he can do without them, and purchases afresh in June. The result is that borrowing for cattle varies greatly in volume in different parts of the province. Generally speaking, expenditure on cattle is greatest in the east and least in the west. It also varies greatly from time to time, for, should the monsoon fail, the consequent shortage of fodder will drive cultivators to sell their animals, who normally would not have done so.

164. From the end of June to the middle of September the farmer seldom finds it necessary to borrow. He is busily engaged in preliminary ploughing for the next *rabi* and in ploughing, sowing, weeding, and hoeing his *kharif* fields. But *kharif* seed is cheap, and he has still sufficient spare cash or grain to pay his labourers.

165. From the middle of September to the middle of November is the busiest period of the entire year, during which the *kharif* is harvested, with the exception of the late rice, and the *rabi* fields are ploughed and sown. And the cultivator's debt begins to grow. By the middle of September his stock of food runs short, and he must borrow grain for his own food and his labourers' wages. He must borrow his *rabi* seed; finally, towards the end of the period he must borrow to pay the *kharif* instalment of rent, for very little of the *kharif* crop is sold, being reserved for food, and he is consequently short of cash.

166. From the middle of November till the middle of March the farmer has heavy expenses to meet. The late rice is being harvested; the sugarcane crop is being cut and crushed. The *rabi* crop must receive one watering, and, unless the winter rains are peculiarly favourable, a second and possibly a third. At first there will be little need for the farmer to borrow, for his *kharif* grain will probably carry him through till the end of January; but his stocks will then be exhausted, and he must once more borrow to keep himself, his family, and his labourers alive.

167. Harvesting operations begin about the middle of March and end before the middle of May, and the farmer now begins to reap the reward of his labour. For a while he must still borrow money and grain for food and wages, but most of his borrowings will be unproductive. He may have to finance a daughter's wedding, for the marriage season is in full swing at this time; he will certainly secure a few rupees, a certain amount of better grain than he usually eats, and a few luxuries, to enable him to enjoy the *Holi* festival. Finally, he will sell his produce, and, with the proceeds, pay off his short-term debt, his rent, and, if he is lucky, at least a part of the interest on his long-term debt, too.

168. *Distribution of agricultural debt according to objects.*—The nature of the figures on which we have based our estimates of distribution of agricultural debt according to the objects on which it is incurred are fully described and criticized in Appendix I, where the method of framing the estimates has also been explained. On the basis of these figures the total debt is distributed over the province as a whole in the proportions 30 productive, 34 unavoidable, and 36 unproductive. The debt classed as unavoidable, however, has all been spent on agricultural purposes; so that the total agricultural debt amounts to 64 per cent. The figures also show clearly the relative importance of those economic factors which are mainly responsible for the present state of agricultural indebtedness. Of the total debt 30 per cent. is due to the needs of the cultivator's industry, 34 per cent. is due directly and definitely to his poverty, and 36 per cent. is due to the social, religious or legal customs by which he is bound. The results are striking; there can no longer be any doubt of the principal defects in the present economic situation of the peasant. And if the provincial figures point out the defects, a comparison with the co-operative figures suggest one possible remedy. The co-operative percentages are 47 productive, 37 unavoidable and 16 unproductive. In other words, the peasant who is a member of a co-operative credit society, though not better off than others, has learnt the wisdom of spending a good deal more on productive and good deal less on unproductive purposes. Possibly it would be more

correct to say that, since co-operative credit is strictly controlled, he is compelled to be wise, whether he would or no.

169. *Classification of agricultural debt by periods.*—Strictly speaking, a loan should not be classed as long-term unless, at the time when it was made, it was agreed between the parties that its recovery should actually be spread over a long-term. But in that case, debt would be long-term or short-term according as it was or was not secured on a land mortgage, which is a classification of no particular importance; for this is the only case in which a long term of repayment is ever fixed, and in the case of other debt, either a short period is fixed or none at all. We propose accordingly to base our classification not on the period in which debt is repayable, but on the period in which it ought to be repaid. The material available for this purpose has been described in Appendix I.

170. In the past economic and financial experts have been content to sub-divide credit and debt on the basis of duration into two classes, long-term and short-term. But in more recent times it has been recognized that there is a third class, which cannot be strictly regarded as either long-term or short-term, but lies between the two. To this class the name "intermediate" has been attached.⁽¹²⁾ In the United States of America special machinery was introduced by the Agricultural Credits Act of 1923 to handle such finance, in the shape of National agricultural credit corporations and Federal intermediate credit banks, both of which advance credit on the security of farm produce and live-stock, for a period that may not exceed three years. It is not our purpose to suggest the creation of such organisations: the task of credit reconstruction is quite sufficiently difficult without introducing this refinement. Nevertheless, the distinction is convenient, for it enables us to classify separately certain kinds of debt, which are rarely repaid, or even repayable, in the longest period that can suitably be described as "short," i.e., one year; but usually are, and certainly ought to be, repaid within three years.

171. *Distribution of agricultural debt by periods.*—As explained in Appendix I, our examination of the distribution of debt by periods is based on 33½ lakhs of classified debt extracted from our survey reports and the evidence of various witnesses. It is necessary, too, to make it clear that these figures, partly by chance and partly by design, include a comparatively small amount of landlord's debt, or rather of *samin-dar's* as opposed to *pattidar's* debt: otherwise the proportion of unproductive long-term debt would certainly have been much larger. The

(12) The Royal Agricultural Commission used the term for certain kinds of debt: Report, page 416.

following table shows the distribution of this sum into long-term, intermediate, and short-term debt. The figures have been rounded for the sake of simplicity.

	Long-term.		Intermediate		Short-term.		Total.	
	Amount.	Percentage	Amount.	Percentage	Amount.	Percentage	Amount.	Percentage
	Rs.		Rs.		Rs.		Rs.	
Productive ..	76,000	2	5,12,000	15	7,91,000	21	12,69,000	38
Unavoidable ..	..	..	3,85,000	10	4,64,000	14	7,99,000	24
Unproductive..	12,69,000	38	..	..	..	..	12,69,000	38
Total ..	13,45,000	40	8,47,000	25	11,65,000	35	38,57,000	100

172. These figures may be further subdivided.

(1) *Productive long-term debt* is made up as follows:—

	Rs.
(a) Construction of wells	12,000
(b) Building of houses	7,000
(c) Acquisition of land	54,000
(d) Acquisition of flour mill	3,000

The last item represents a single (unsuccessful) venture. "Acquisition of land" includes not only borrowing for purchase, but also for taking a land mortgage; for, as we have mentioned elsewhere, the enterprising agriculturist does not hesitate to borrow with the immediate object of lending, and the ultimate object of acquiring land.⁽¹⁾ "House-building" must generally mean the building of a better house,—bricks instead of mud,—betokening a rise in the standard of comfort and as such desirable but only dubiously productive. Only Rs. 12,000, it will be noticed, have been borrowed for agricultural improvements proper, or under 4 per cent. of the total debt.

(2) *Productive intermediate debt* represents:—(a) borrowings of Rs. 3,59,000 for the purchase of cattle, both draft and milch animals, with an occasional pony, and, in the hills, also goats; (b) advances made by village headmen (*padhans*) in the Tarai and Bhabar to induce tenants to settle there, to the extent of Rs. 1,45,000; (c) a sum of

⁽¹⁾ Chapter III, para. 116.

Rs. 8,000 expended on field repairs in the hills, which probably represents the cost of terracing them.

(3) *Productive short-term debt* relates to a variety of objects. It is impossible to distinguish between them with any accuracy, for in many cases the amount borrowed for two or three objects has been shown as a single sum. Of the total amount only 3 lakhs is classified in detail. Using this as a basis for apportioning the rest of the debt between various objects we obtain the following figures:—

	Rs.
Seed	2,85,000
Other agricultural purposes (principally wages, and to a very small extent purchase of manure)	2,31,000
Other productive purposes	1,70,000

In the Tarai and Bhabar the amount borrowed for other agricultural purposes is Rs. 1,45,000, and just over double the amount borrowed for seed (Rs. 72,000). In the rest of the province the figures are reversed; the amount borrowed for seed, (Rs. 2,23,000) is more than double the amount expended on other agricultural purposes. In this particular case the variation is, no doubt, due to the peculiar circumstances of the Tarai and Bhabar; but no explanation has been given of the figure, and, as it is merely described as "expenses of cultivation" it is impossible to suggest one. Under "other productive purposes" a certain amount of money has been borrowed for the education of children; the amount is Rs. 1,100 out of Rs. 29,000 for which we have details. The whole of the rest is described merely as "trade", and doubtless represents advances taken by agriculturist *beoparis* from *arhatias*.⁽¹⁴⁾

(4) *Unavoidable intermediate debt* consists entirely of borrowings for the payment of rent and revenue. The sum is large, but there have probably been more borrowings than usual on this account during the last two unfortunate years.

(5) *The unavoidable short-term debt*, with the exception of a thousand rupees or so spent on miscellaneous purposes, consists entirely of borrowings for subsistence. This figure, too, is probably larger than usual as the result of recent calamities.

(6) *Unproductive long-term debt* is made up as follows:—

	Rs.
Repayment of old debt	4,81,000
Expenditure on social or religious ceremonies	5,20,000
Expenditure on litigation	2,31,000
Miscellaneous extravagance	7,000

(14) See Chapter III, para. 125.

The figure for litigation gives a false impression of the litigiousness of the province. Out of the total of Rs. 2,31,000 a sum of Rs. 1,40,000 belongs to the single district of Rae Bareilly. Even in that district it is misleading, for out of 7,178 tenants or small landlords regarding whose indebtedness inquiries were made by the settlement officer, only 139 had borrowed money for litigation; and these are responsible for the entire sum of Rs. 1,40,000. The average works out at just over a thousand rupees per debtor, but the amounts due by individuals vary greatly. Nearly all these debtors belong to the higher castes and many of them are small landlords.

173. The head "miscellaneous extravagance" is described by most witnesses as "waste", and few details are given. In one case a debt of Rs. 900 was contracted to buy an elephant, apparently for no better reason than that the family had possessed elephants before.

174. *Correction of figures to allow for landlords' debt.*—We have stated above⁽¹⁵⁾ that the sum of 33½ lakhs on which we have based this discussion includes very little landlords' debt; and we have now to modify our results accordingly. In a subsequent paragraph,⁽¹⁶⁾ we have estimated the total debt at 124 crores; of which 54 crores may be taken as similar in its distribution to the present 33½ lakhs. The balance of 70 crores is landlords' long-term mortgage debt. The total of long-term debt is then 40 per cent. of 54 crores *plus* 70 crores, or 74 per cent. of the whole. The intermediate debt becomes 11 per cent. and the short-term debt 15 per cent. of the whole.

175. The most striking feature in these figures is the preposterous discrepancy between productive and unproductive long-term debt. In an agricultural province like this, where the peasant is notoriously poor and where, for various reasons, the only hope of bettering his lot lies in free expenditure of long-term capital on land improvements, it seems incredible that, for every one rupee spent in this manner, nineteen are spent on purposes which, however much custom may enjoin them, nonetheless involve extravagance far beyond the means of the debtors. In a previous paragraph we have mentioned reasons why the peasantry are reluctant to spend money on the making of wells or other improvements, namely, that a tenant can rarely derive benefit from such expenditure except in partnership with other tenants; that landlords rarely spend money in this way; that when either a partnership of tenants or a progressive landlord does carry out any improvement, there is seldom need to borrow for the purpose. These figures, however, suggest

⁽¹⁵⁾ Para. 171.

⁽¹⁶⁾ Para. 201.

another and even more important cause, namely, that the cultivator, who at best possesses but a limited amount of credit suitable for long-term debt, has used so much of it for his unproductive borrowings that he has none available for any more profitable purpose. But, whatever the cause may be, the situation, as disclosed by the figures, is highly unsatisfactory.

176. *Effect of unpunctual repayment on the distribution of debt by periods.*—The distribution of debt into long-term, intermediate, and short-term which we have given above is based on the nature of the debt itself. It does not, however, correspond to observed facts, for the rural borrower is traditionally unpunctual in making repayment. It is this which explains his preference of the moneylender, who is willing to give him almost unlimited grace, to the co-operative society or Government who insist on payment at due date. He forgets that he has to pay a high price, in the shape of interest, for the grace which the moneylender affords him. The result is that a large amount of debt which is of a short-term nature, ultimately by lapse of time becomes long-term debt. As an example we may quote the figures of a village in Benares district where the distribution of its debt of Rs. 17,934, according to its nature, is 9 per cent. short-term, 11 per cent. intermediate, and 80 per cent. long-term. But of this debt 30 per cent. has been running for over one but less than three years, 69 per cent. for periods between 3 and 31 years, and only 1 per cent. for less than one year. In this village, therefore, most of the short-term debt has already passed into the next or intermediate stage, and a great deal more will before long pass into the long-term stage.

177. The nature of this process of evolution is described by many of our witnesses. The peasant borrows small sums from time to time from the moneylender, which, in the course of a year or two, grow to a large figure. The moneylender then calculates interest on all of them and causes the debtor to execute a promissory note for the total, which begins to run at a fixed rate of interest. Every third year interest is added to principal, and a new bond is executed for the total amount. From time to time the debtor will borrow money from one creditor to pay off another; this substitutes new for old debt, and the process of evolution commences afresh. In this matter, however, it is possible to draw a distinction between tenants and landlords. The tenant will always, if he possibly can, pay off at least his short-term debt punctually, and, as a rule, only postpones payment when the harvest has failed or some other calamity has occurred. The repayment, no doubt, is often merely nominal, for a tenant who, having paid off his moneylender, finds himself short of money to pay his rent, will immediately borrow again

for that purpose; but, at all events, the repayment has stopped accumulation of interest. With the landlord, however, "time and punctuality are not matters of importance," and the progress of his debt from short-term to long-term is generally unbroken. The total volume of long-term debt is, therefore, constantly increasing. But the pace of its increase is greatly accelerated after a succession of bad years, for at such a time new debt is accumulated and repayment of old debt ceases. A case has already been mentioned of debt which began 31 years ago, just after the severe famine of 1897-98; and in a report from Basti another debt has been traced back to 1868, which was also just after a famine. In a third case, from a Rao Bareli village, practically all the old debt is said to belong to the famine years 1907-08. And in all probability that famine marks the beginning of most of the old and ancestral debt now in existence.

178. *Distribution of credit transactions according to medium.*—The credit transactions prevalent in the province may take one of four forms, according to the medium in which advance and repayment respectively are made. These are:—

- (1) Where both advance and repayment are in cash;
- (2) where advance is in kind and repayment in the same kind;
- (3) where advance is in kind and repayment in cash or in some different kind;
- (4) where the advance is in cash or kind and repayment is in service.

Of these four types of transactions only the first two are loans in the true sense of the word. The third class of transactions are purchases on credit. The last may be most charitably regarded as an advance payment of wages for service; but is usually described, as it probably is, as a relic of serfdom. It is reported from various places; but it seems to be most common in Gorakhpur, Basti, Gonda, and the Tarai, all of them in the submontane tract.⁽¹⁷⁾ In Basti and

(17) The following quotation from the Basti Settlement Report of 1891 shows that at that time serfdom was still in existence. Domariaganj is the north-western tahsil of Basti. "The majority of the ploughmen in the north of Domariaganj are still serfs, who in consideration for an advance of cash, have bound themselves, their wives and children, to work for their master until the money is repaid. Of course, the money is never repaid but the condition of the ploughman is not one of actual slavery. The contract of the 'sawaki' bond would not be enforced by the Courts, and when the sawaki is dissatisfied with his employer he simply runs away and takes service elsewhere. The new master generally takes over the sawaki's debt. A man who keeps a run-away ploughman, and refuses to pay the money owing to his former master, is considered thoroughly dishonest and is denounced as a *be-iman*. The price of a ploughman and his wife is generally from Rs. 50 to 60."—Basti Settlement Report, 1891, page 39.

Gonda service is definitely a method of repaying the principal of the debt. In the former district, for instance, the debtor contracts to give his own services or those of some member of his family free for a whole year. In the Tarai and Gorakhpur, on the other hand, the service is occasional and appears to be in lieu of interest. In Gorakhpur, for instance, the debtor must plough his creditor's fields with his own bullocks once in each crop-season, or, if he has no bullocks, perform some other field work for two days. In Gonda, it is said, the debtor is often tricked into taking a bond on a very high rate of interest which he cannot possibly repay, so that he may subsequently be offered the choice of working off the debt by labour; for farm servants are in high demand amongst the high caste agriculturists of that district.

179. The third class of transaction is common, but probably does not account for any large part of the total debt. It covers such cases as the purchase on the instalment system of cattle from the wandering cattle dealer, or of cloth from the Kabuli, as well as of minor transactions with the village *bania*. The most curious transactions of this kind are all connected with cattle. In the Tarai and Bhabar, and possibly other places, there are cattle-dealers who in payment for plough oxen receive half the produce of the debtor's fields after the village headman (*padhan*) has taken his share; and in Etawah a loan to purchase a milch cow is often repaid in *ghce* at the time of her calving, at a rate which means a profit of between 30 and 40 per cent. Elsewhere, there is a custom known by the name of *adh balai*, where the price of a cow bought on credit takes the form of half the value of her male calves.

180. The first two types of transaction account for all but a very small part of agricultural debt. The only advance which is made in kind and repaid in the same kind is of grain, whether for seed or subsistence. In some places the *bisaria* (grain-lender) will only agree to make an advance in grain if its price is running low; if the price is high, the debtor must borrow cash to buy it. On the other hand, in some parts of Oudh the *bisaria* will refuse to accept anything else but grain in payment, so that the debtor, if he has none of his own, must buy it to repay his debt. A grain debt is only converted into a cash debt when repayment has long been delayed, and the amount has accumulated unduly. In Basti the practice of grain advances is said to be dying out.

181. By far the greatest number and volume of agricultural credit transactions fall in the first class. It includes all long-term debt, whether productive or unproductive, all intermediate debt for the payment

of revenue or rent, a greater part of the debt contracted to purchase cattle, and a considerable part of short-term debt. There are great differences of opinion amongst our witnesses regarding the proportion which cash transactions bear to transactions in kind. No doubt that proportion varies greatly from place to place. The proportions most commonly suggested are 75 cash and 25 kind; but, judging from the figures given in para. 171, the latter is certainly too high, since the total amount of debt for seed and subsistence together is less than 23 per cent. of the whole. Allowing for the fact that some grain is undoubtedly purchased in cash, probably 20 per cent. is an outside figure.

182. *Distribution of debt with relation to holdings etc.*—For the discussions of debt distribution which follow we have used other statistics than those referred to in previous paragraphs. The nature of these statistics is explained in Appendix I and need not be repeated. It is, however, necessary to draw attention to one very important point which affects their nature. The figures were all collected in the months of February and March of the current year, just before the *rabi* harvest. This is the time when in any year debt is invariably at its highest.⁽¹⁾ On the present occasion, however, there are three special causes at work which must have had the effect of still further increasing debt. *Firstly*, ever since the *kharif* of 1928, the province has suffered a series of agricultural calamities, resulting in one crop failure after another. There is reason for hoping that this period has come to an end with the present *rabi*; but debt must meantime have been accumulating as the result of the peasant's diminished ability to repay. *Secondly*, during the last two years Government had advanced about 190 lakhs of *taqavi*, probably the highest figure on record since the famine of 1907-08; and though much had been repaid before the end of March, well over a crore was still due, whilst the normal outstandings would generally be about 20 lakhs. *Thirdly*, the Indian Child Marriage Act, better known as the Sarda Act, came into force on April 1, and many parents who objected to its provisions took advantage of the interval between its passage and that date to evade them. A very large number of marriages took place before the end of March which would otherwise have been delayed, with the result that marriage debt too must have been unusually high. In short, it seems certain that our statistics, instead of representing a normal state of affairs, constitute a record. On the other hand, it also seems certain that an unusually large proportion of the debt in existence at this time, probably not less than 50 per cent. as against the normal

(¹) See Evidence, Vol. II, p. 4.

35 per cent.,⁽¹⁹⁾ represents short-term borrowings either for seed or for subsistence, which would be repaid after the first good crop, so that of this debt probably one half has already been repaid at the time of writing,⁽²⁰⁾ or will shortly be repaid.

183. *Debt-free and indebted among tenants and peasant proprietors.*—The statistics recorded by settlement officers during the course of the economic inquiries showed a large number of debt-free tenants in the six districts with which they were dealing.⁽²¹⁾ Their figures are reproduced in the following table :—

District.	Debt-free.		Indebted.	
	Number.	Percentage.	Number.	Percentage.
Partabgarh	6,038	71	2,477	29
Bara Banki	7,415	65	3,976	35
Lucknow	2,872	63	1,078	37
Unao	1,914	55	1,509	45
Rae Bareilly	3,089	48	4,069	57
Budaun	2,182	58	1,571	42
Total	28,590	61	15,840	39

These figures appear incredibly favourable, and indeed caused surprise both to the settlement officers who collected them and to ourselves; and the Chairman, who first examined and discussed them, was at some pains to suggest that if they were correct they were due to special causes.⁽²²⁾ Our scepticism on this point indeed was one of the causes which induced us to obtain further returns of debt, as explained in Appendix I. Our own statistics, however, merely serve to corroborate those collected by the settlement officers. The following table shows the figures for the eight natural divisions and for the province as a whole :—

Division.	Debt-free		Indebted.	
	Number.	Percentage	Number.	Percentage.
Himalaya, West	515	57	389	43
Sub-Himalaya, West	884	40	1,361	60
Indo-Gangetic Plain, West	3,805	33	7,395	64
Indo-Gangetic Plain, Central	6,918	47	7,788	53
Central India Plateau	2,306	87	3,338	68
East Satpuras	165	57	125	43
Sub-Himalaya, East	5,475	55	4,415	45
Indo-Gangetic Plain, East	3,482	61	2,334	39
Total	28,550	46	27,545	54

⁽¹⁹⁾ See para. 171.

⁽²⁰⁾ May 24th.

⁽²¹⁾ For a full discussion of these statistics see Evidence, vol. II, p. 3. They are also referred to in Appendix I, para. 6.

⁽²²⁾ His remarks will be found in Evidence, vol. II, pp. 3 et seq.

Our figures no doubt are generally smaller than the settlement figures. For this difference, there are adequate causes.

(1) During the interval between the collection of the settlement officers' returns and our own, the agricultural position had grown worse, and debt had increased, for the reasons explained above.

(2) Whilst our own returns were collected at a time when debt would in any case have been at its highest, many of the settlement returns were collected at a time when it was relatively low.

(3) Five at least out of the six settlement districts are prosperous above the average,—a fact made abundantly clear by the arguments given in evidence,⁽²³⁾ and corroborated by their relatively light burden of debt as disclosed by our own figures.

184. The first two of these assertions are supported by a comparison between the earlier and later returns in respect of the six settlement districts. The figures are given in the table below :—

District.						Percentage of debt-free.	
						Earlier figures.	Later figures.
Partabgarh	..	..	..	..	..	71	49
Bara Banki	..	..	..	..	..	65	56
Lucknow	..	..	..	..	..	63	37
Unao ..	..	..	..	..	..	55	47
Rae Bareli	..	..	..	..	..	48	48
Budaun	..	..	..	..	..	58	67

It will be noticed that in four districts out of the six, the position is considerably worse now than it was when the settlement officers reported. In the two where the position has ostensibly improved, there are special causes. In Budaun our own returns relate only to a very small number of persons, whilst in Rae Bareli the settlement officer's figures were upset by an amazingly large amount of litigation debt.⁽²⁴⁾

(23) Evidence, vol. II, p. 3.

(24) See paragraph 176(2) above.

185. We have now to consider whether, in view of the coincidence between the earlier and later statistics, any room is left for scepticism regarding their accuracy. Debt is so common a phenomenon amongst the peasantry, that indebtedness carries no stigma with it. There are possibly some types of borrowings, such as those for subsistence, which the higher caste debtors, at all events, will be unwilling to disclose. It is also probable that a debtor, of whatever caste, may have good practical reasons for not disclosing the whole amount of his debt. But we can scarcely believe that any debtor's natural reticence would carry him so far as an assertion that he was *entirely* free from debt. Further, the figures were collected both in the case of the settlement and our own statistics by the revenue staff, namely the patwari and his superior, the supervisor qanungo. These officers, especially the former, are intimately acquainted with the villagers and, though they might not be able to state the exact extent of any particular villager's indebtedness, would certainly be able to confute any debtor who asserted that he was free from debt, and as certainly would refuse to give effect to that statement in any records that they were compiling. Indeed, in 99 cases out of 100 where a bond had passed the scribe would be the patwari himself.⁽²⁵⁾ *Prima facie*, therefore, there seems no reason whatever to doubt the accuracy of the debt-free figures, however much they may run counter to the accepted ideas on the subject;⁽²⁶⁾ though, as explained in the next paragraph, freedom from debt is not always a matter for congratulation.

186. *Distribution of debt by holdings.*—(a) *The debt-free.*—In table V, the debt of tenants and peasant proprietors⁽²⁷⁾ has been

(25) Similar arguments apply to the census returns. One of the greatest safeguards of the accuracy of these returns is the fact that they are either collected or examined by the patwari who can from his own knowledge correct any misstatement of fact that may be made.

(26) Another line of argument has been suggested to us as supporting the accuracy of these statistics of debt. The average villager is generally suspicious of official demands for information of an unusual kind, as a demand for information regarding debt would be. He is apt in such a case to ask himself the old question "*cui bono*" (who would benefit); and he is equally apt to furnish only such and as much information as he thinks will benefit himself. At the time when these inquiries were made, the villager had only recently, and partly, emerged from a period of adversity, during which Government had rendered an unusual amount of assistance both in the shape of *taqqas* and remissions or suspensions of rent and revenue; for which assistance he was after his own fashion grateful. But gratitude is a lively sense of future favours, and in such circumstances, he may well have supposed that the curialty of a government officer regarding his debt was a preface of further concessions of the same kind; in which case, of course, he would have been more likely to exaggerate than minimise his debt.

(27) For a definition of this term in this connexion, see Appendix I, para. 15.

distributed according to the size of their holdings. Holdings have been arranged in four groups, (1) less than 5 acres, (2) between 5 and 10 acres, (3) between 10 and 20 acres and (4) over 20 acres. Unfortunately, our statistics as collected do not show the number of debt-free separately for each group. This, however, is a matter of comparatively small moment, for we can obtain the information required from the settlement statistics mentioned above. These show very little variation between groups; the percentage of debt-free in the first and third groups is 59, in the second it is 57, and in the fourth it is 56, with an all-round average of 58. We shall not, therefore, err greatly if we assume that the percentage of debt-free in each group is the same as in the total i.e., that the total provincial percentage of debt-free, namely 46, represents 46 per cent. in each group.

187. This result is again *prima facie* contrary to expectation. One would have naturally supposed that the proportion of debt-free would have varied directly with the size of the holdings, and that there would have been relatively fewest of them in the first group and most in the fourth. The explanation, however, is not far to seek.

(1) It is amongst the small holders that are chiefly to be found those villagers who possess a subsidiary occupation; for instance, the village artisans, such as the blacksmith and carpenter; the village servants, such as the barber, the tanner, the *kahar* and the priest; the farm servant, such as the ploughman or cattle-herd. All of these usually possess only small holdings, but because they possess other resources are often better off than cultivators with larger holdings. And, indeed, it is probably more correct to say that in these cases agriculture is not the primary but the secondary occupation.

(2) Members of market gardening castes such as the Koiri or Murao usually have only small holdings, but by their intensive cultivation of specially valuable crops derive therefrom an income which is often much larger than that derived from a much larger holding by an ordinary cultivator.

(3) Thanks to their extravagant habits, few tenants of the higher castes are ever entirely free from debt; and such tenants possess more than their fair share of the large holdings.

(4) Freedom from debt may be due not to a sufficiency of income, but to an insufficiency of credit: a peasant, especially a very poor peasant, may be free from debt merely because nobody is willing to lend to him. Such cases would naturally be confined to small holders.

188. (b) *The debtors.*—The distribution of debt according to the size of the holdings in the province as a whole may be tabulated as follows :—

Class.					Percentage of—		Debt per debtor.
					Debtors.	Debt.	
							Ra.
I ..	..	..	..	..	51	32	100
II ..	..	..	..	..	25	27	167
III ..	..	..	..	..	14	28	272
IV ..	..	..	..	..	7	13	437

These figures prove that whilst the largest number of debtors is found amongst the peasants with the smallest holdings, debt is heaviest amongst those with the largest. Both results are natural enough. Few small farmers can work except on credit, whilst the big farmers, though they may possess larger resources of their own, yet have more extensive operations to finance. On the other hand, it is probable that a relatively large part of the small holder's debt is either productive or unavoidable, whilst as the high caste tenants usually have more than their fair share of the larger holdings, a relatively large part of the large holder's debt will be unproductive.

189. Of these results, the second is observed not only in the province as a whole, but also in smaller areas. Of every natural division, excluding the hill tracts, it is true that the larger the holding the heavier the debt. It is also true of 33 out of the 44 plains districts. It is not, however, so universally true that the largest number of debtors is to be found amongst the tenants with the smallest holdings. The number is largest in the second group in three districts of Sub-Himalaya, West, in seven districts in the western Indo-Gangetic Plain, and in the four districts of the Central India Plateau. These are all districts where the average holding is relatively large. It can, however, be asserted that the number of debtors in the two lower groups taken together is always infinitely larger than the number of debtors in the two higher.

190. *Debt and the economic holding.*—In a previous chapter⁽²⁰⁾ we sub-divided the province outside the hills into five tracts according to the size of the average holding, and also calculated, on the basis of

⁽²⁰⁾ Chapter II, para. 56, et seq.

averages, the minimum economic holding for each tract. We have now to consider the burden of debt on the holding by the produce of which it is secured, which involves a further consideration of that indeterminate concept, the economic holding. For indeterminate it certainly is. As we have pointed out, it is subject to many causes of variation, the nature and location of the holding, the caste, customs and skill of the cultivator, his standard of comfort. It is scarcely an exaggeration to say that there are as many economic holdings as there are cultivators. An economic holding, in a word, is an economist's abstraction. It is an amalgam of averages,—average distribution of soils, average cropping, average outturn and prices, with an average tenant paying an average rent, possessing an average family, and incurring average expenditure. Yet some of these averages involve hopeless impossibilities. A cropping, for instance, which is possible in a million acres will be impossible in a holding of three acres.⁽²⁾ Again, the number of members in the average family is 4·6, which is plainly ridiculous; whilst the average tenant has no more real existence than Professor Marshall's "economic man." Nevertheless, an "economic holding" has its uses, at all events for the purposes of argument, since it fixes a point round which argument can centre.

191. With the assistance of the figures before us we have endeavoured to calculate for each of the tracts mentioned above the number of holdings which are below and above the minimum economic holding. We have assumed that in each holdings group, the debt-free holdings are 46 per cent. of the total. We then get the figures given in the table below:—

Tract.	Number of holdings in—				Total number.	Minimum economic holding (acres).
	Group I.	Group II.	Group III.	Group IV.		
Southern	2,216	2,164	1,608	1,119	7,107	9·8
Western	2,460	2,814	2,466	888	8,628	5·0
North Central	5,806	8,216	1,079	406	10,507	4·7
South Central	7,927	3,354	1,331	545	12,557	4·7
Eastern	8,094	2,254	807	808	11,963	4·0

The results of these figures are as follows:—

(1) The first group represents holdings of under 5 acres. It follows, therefore, that in the western and southern tracts all the holdings in the first group are below the minimum economic figure, whilst in the other tracts nearly all are either at that figure or below it.

(2) For instance, the rice area in the "economic holding" of a district like Meerut would be about the size of a billiard table.

(2) In the southern tract, all the holdings in the second group are also at or below the minimum economic figure.,

(3) The rest of the cultivators in group II, and those in group III in the southern tract possess holdings at or somewhat above the minimum economic holding, have a certain surplus in good years and may be regarded as fairly well off except in bad times. The number of these is 13,241 or 26 per cent. of the whole.

(4) The remainder, consisting of all the holdings in group III except in the southern tract, and the cultivators in group IV, may be regarded as well off in a greater or less degree. Their number is 8,942 or 18 per cent. of the total.

192. The position can now be summarized thus. Of all tenants and peasant proprietors (a) 18 per cent. can be regarded as well-to-do, of whom 8 per cent. are free from debt, (b) 26 per cent. can secure in a good year a margin to carry them over a bad year, of whom 12 per cent. either by reason of greater thrift or the possession of some subsidiary occupation are free from debt, (c) 56 per cent. possess holdings either at or below the minimum economic figures, of whom 26 per cent., however, by reason of subsidiary occupations are free from debt, but must obviously have some difficulty to keep their heads above water.

193. In a former chapter⁽²⁰⁾ we divided the tenants according to their economic circumstances into three classes: We stated—

- (1) that the number of tenants whose holdings are definitely uneconomic and who also possess no other subsidiary sources of income was small;
- (2) that the number of tenants who possess holdings of the average size or above it is smaller than that in the former class;
- (3) that the great majority of cultivators either possess holdings at or just above the economic level, or possess uneconomic holdings with a subsidiary occupation.

We can now prove these general assertions by definite figures. The proportion falling in the first class is 30 per cent. The proportion falling in the second class is 18 per cent. The third class consists of the majority, viz., 52 per cent.⁽²¹⁾

194. *Burden of debt per acre.*—But if the amount of debt paid by the smaller holder is not so great as that paid by his wealthier fellows,

(²⁰) Chapter II, para. 64.

(²¹) The 30 per cent. represents those in para. 192(c) that are not debt free; the 32 per cent. represents the rest of those in para. 192(c) plus those in para. 192(b).

there is no doubt that the *burden* of it is relatively heavier on the former. To prove this assertion we have attempted to work out the incidence of debt per acre of holding in each of the four groups. For this purpose we have assumed that the distribution of the holdings is normal for the tract to which it belongs. On this assumption, obviously the area concerned is the number of holdings multiplied by the average holding of the tract, which figure can by experiment then be sub-divided between the various groups. On this basis we arrive at the following figures :—

Tract.	Group I.		Group II.		Group III.		Group IV.	
	Average holding.	Debt per acre.	Average holding.	Debt per acre.	Average holding.	Debt per acre.	Average holding.	Debt per acre.
Southern ..	4.5	17.0	9.5	9.2	15.0	9.3	38.5	6.8
Western ..	4.5	26.8	7.0	23.8	12.0	21.1	27.0	18.0
North Central ..	4.0	22.6	7.0	16.4	13.0	13.8	24.0	16.8
South Central ..	2.8	39.4	6.0	25.9	10.0	20.7	20.0	31.8
Eastern ..	2.2	53.1	6.0	55.7	10.0	67.0	20.0	58.4

These figures show that the burden of debt in relation to the size of the holding is heaviest amongst the small holders in group I in every tract except the eastern circle, where debt is enormously high in all groups. The reasons undoubtedly are the presence of a large number of permanent tenure-holders and fixed-rate tenants whose holdings are transferable,—a fact which greatly increases their credit and with it the temptation to run into debt. The general conclusion, therefore, is that the small holder, though he may owe relatively less than his more prosperous fellows, has nevertheless to bear, *relatively to his economic circumstances*, a far heavier burden of debt than they. And this disquieting conclusion is only partly mitigated by the fact that a relatively low proportion of the small holder's debt is long-term; for, as has been explained elsewhere, short-term debt, if allowed to accumulate, is apt, as the result of the moneylender's eccentricities, to become long-term debt.

195. *Burden of debt in terms of rent.*—In Table VI debt is compared with rent and arranged in three classes according as (1) the debt is less than one year's rent, (2) between one year's rent and two years' rent, and (3) over two years' rent. In this we imitated the settlement statistics to which we have frequently referred. This classification affords an excellent measure of the burden of debt. "Writing in 1911, Mr. Moreland stated that the rent paid by a non-occupancy tenant was between

10 and 20 per cent. of the value of the gross produce of his holding. Since then both rents and prices of produce have risen, but the latter have risen relatively much higher than the former, the growth of which has further been artificially retarded by the acquirement of preferential rights. It may be taken, therefore, that rent is relatively much less of a burden than it used to be. A tenant who owes less than one year's rent can be regarded as lightly indebted, since in almost any circumstances, except an agricultural calamity, he would always be able to pay off the debt at almost any moment without inconvenience. A tenant who owes more than one year's rent but less than two years' is moderately indebted; but if he owes a sum greater than two years' rent, he is undoubtedly heavily indebted."⁽²⁾

196. Over the province as a whole the figures are as follows :—

	Number of tenants. Percentage.	
Debt-free	23,350	46
Indebted for less than one year's rent ..	6,198	12
Between one and two years' rent ..	5,245	10
Over two years' rent ..	16,101	32

We may regard the debt-free and those who owe less than one year's rent as "unencumbered," the others as "encumbered." The unencumbered then amount to 58 per cent. of the whole and the encumbered to 42 per cent. These figures are much less favourable than those recorded by the settlement officers in the six districts mentioned in paragraph 163, where the figures were 76 unencumbered and 24 encumbered. The cause is once more, *firstly*, the agricultural calamities of recent years which have resulted in the accumulation of debt, and *secondly*, the fact that at the time when the figures were collected debt was at its highest.

197. In the following table we compare the settlement figures and our own in respect of the six settlement districts :—

District.			Unencumbered.		Encumbered.	
			Settlement figures.	Present figures.	Settlement figures.	Present figures.
Partabgarh..	..	..	81	63	19	37
Bara Banki	..	..	81	73	19	27
Lucknow ..	..	..	79	55	21	45
Unao ..	..	..	69	67	31	33
Rae Bareilly ..	..	..	66	67	34	33
Badaun ..	..	..	70	70	30	30

(²²) Evidence, vol. II, p. 2.

The same variation is observable here as in the case of the figures in paragraph 183, and is due to the same causes. The figures by natural divisions are as follows :—

Division.					Unencum- bered.	Encum- bered.
Himalaya, West .. .. .	..	..	..	..	64	86
Sub-Himalaya, West .. .	..	..	..	..	48	52
Indo-Gangetic Plain, West .. .	..	..	..	..	43	57
Indo-Gangetic Plain, Central .. .	..	..	..	..	65	35
Central India Plateau .. .	..	..	..	..	44	56
East Satpuras .. .. .	..	..	..	..	60	31
Sub-Himalaya, East .. .	..	..	..	..	60	40
Indo-Gangetic Plain, East .. .	..	..	..	..	62	38

The number of encumbered cultivators exceeds the number of unencumbered only in the three divisions Sub-Himalaya, West, Indo-Gangetic Plain, West, and Central India Plateau. These are the divisions which have suffered most severely from the calamities of recent years.

198. *Freedom from debt and indebtedness amongst landlords.*—From an economic point of view the circumstances of the small peasant proprietor or *pattidar* are similar to those of the ordinary tenant, and the figures relating to both were accordingly amalgamated. The large landlord, however, the *zamindar* properly so called, whether a single person or a joint family, who owns an entire village or a definable part of a village, stands in an entirely different category. The statistics relating to him will be found in table VII. These figures relate to 3,636 landlords, of whom 1,614 or 45 per cent. are debt-free. The rest are shown as owing between them about Rs. 41,06,000 round,—an average of Rs. 4,050 per debtor. On a consideration of the detailed figures we have estimated that 20 lakhs of this represents debt secured on registered land mortgages. A comparison of tables VI and VII shows that whilst relatively fewer landlords are free from debt than tenants and peasant proprietors, the average debt of the former is nearly 24 times as large as that of the latter. Remembering the landlord's far greater wealth, we can only

attribute this result to his extravagance, born of a desire to maintain his social position and prestige.

Little can be made of the local distribution of this landlords' debt. In any single district the number of landlords concerned vary from 2 in Shahjahanpur to 333 in Basti, whilst the debt per debtor varies from Rs. 11,930 in Agra and Rs. 11,559 in Bara Banki to Rs. 44 in Kumaun and Rs. 142 in Budaun. The high figures in the two former places were due to the discovery of a few mortgage deeds for very high valuations. Nor indeed do the variations have much meaning. They depend less on the debtors' own idiosyncracies than on the amount that our investigators have been able to discover about them. For the province as a whole, however, the figures are sufficiently large and sufficiently widespread to serve, in conjunction with other information, as a basis for estimating the total volume of debt.

199. *Distribution of debt by caste.*—Table IX shows the distribution of debt by caste groups for both landlords and tenants together. The provincial figures are as given in the table below. The figures of debt are in thousands of rupees :—

Caste group.	Number of persons.		Amount of debt.	Percentage of total debt.	Debt per debtor.	Debt per person.
	Debt-free.	Indebted.				
I.—High castes	7,420	9,100	58 87,	66	624	8 6
II.—Good agricultural castes ..	5,608	7,287	11,76,	14	162	91
III.—Market gardening castes..	1,845	2,010	2,60,	3	120	77
IV.—Low agricultural castes ..	3,448	4,417	4,96,	5	54	36
V.—Non-agricultural castes ..	1,210	724	2,79,	3	366	144
VI.—Other castes	5,038	6,020	8,15,	9	185	68
Total	24,964	29,567	68,47,	100	309	162

This table proves to demonstration how large a part of the total debt falls, and how heavy its burden is, on the high castes.⁽³²⁾ The reasons are not far to seek. Not only is there the high caste man's extravagance to account for it, but it also includes by far the greater part of the landlord debt. If the high castes were indebted only to the same extent as the average of the rest of the agricultural population, then their total figure would only be Rs. 10,41,000 (round); which means that the balance of their debt, some 48½ lakhs, is due to their social position and the expenditure which it entails. The lowest figures, as might be expected, are those of the market gardening castes and the non-agricultural castes, both of whom are relatively few in number; the lightest burden, however, for sufficiently obvious reasons, is that borne by the low agricultural castes. The cultivator belonging to the non-agricultural castes, if indebted at all, is heavily indebted; his figure stands next to that of the high castes. On the other hand, as might be expected since this class contains such professional moneylenders as are also agriculturists, only a small proportion, some 38 per cent., are indebted at all. The proportion of indebted and debt-free in the various groups is as follows :—

Caste group.						Percentage of—	
						Debt-free.	Indebted.
I	..	..	..	..	..	43	55
I	..	..	..	..	..	44	56
III	..	..	..	..	..	40	60
IV	..	..	..	..	..	44	56
V	..	..	..	..	..	62	38
VI	..	..	..	..	..	50	50
Total						46	54

Except in the non-agricultural group the variations are small.

200. *Distribution of debt by moneylenders.*—Table VIII shows the amount of debt due to each particular class of moneylender, namely, the village and town moneylenders, landlords, tenants, Government and the co-operative credit societies. There is also a class described as

⁽³²⁾ The high castes concerned are Brahmans, Rajputs, Musahman Rajputs, Saiyids, Shaikhs and Pathans.

"unclassified", an explanation of which will be found in Appendix. (24)
The distribution is as in the following table :—

Description.	Amount.	Percentage.
	Rs.	
Village moneylenders	4,58,479	5.1
Town moneylenders.. .. .	25,03,871	28.8
Landlords	85,12,327	39.9
Tenants	12,10,849	13.7
Government	1,89,784	2.0
Co-operative credit societies	4,72,803	5.8
Unclassified	5,01,578	5.7
Total	88,47,176	..

The most notable fact which emerges from this table is the large proportion of agricultural credit, namely, 53.6 per cent., which is provided by agriculturists. To the extent of well over half the total debt the agricultural population, taken as a whole, can finance itself. The professional moneylender only provides 33.4 per cent. of the credit, or with the unclassified debt (which probably also belongs to him for the main part) 39.1 per cent. The proportion provided by Government is trivial; even so, it is approximately 15 times as large as it normally would be. The most unsatisfactory feature is the small part played in providing credit by the co-operative department. A percentage of 5.8 can only be regarded as paltry.

Even so for the province as a whole the figure is exaggerated. The total amount advanced during 1928-29 was only 42 lakhs or above 1.8 of our estimate of the total debt of tenants and peasant proprietors.

201. *Estimate of volume of debt.*—Our estimate of the total rural debt of the province, in which we include the debt not only of landlords and tenants but also of agricultural labourers of all kinds, is 124 crores. The method in which we have arrived at this estimate has been fully described in Appendix II. We have only to add that a cross-check based on the recorded figures of *taqavi* supports the estimate so far as the debt of tenants and peasant-proprietors is concerned. This works out almost exactly to Rs. 35 per head of rural population, and is $9\frac{1}{2}$ times the average revenue of the province.

B.—Nature and distribution of credit.

202. *The nature of agricultural credit.*—The different classes of rural credit agency were fully described in Chapter III. We have still, however, to give an account of their business methods, of the relations between them and their clients, of the distribution of debt between

(24) See para. 14(a).

the various classes of them, and of the volume of credit available. It will be convenient first to restate briefly what has already been said about these agencies. Rural credit agencies fall into two main classes, whom we have distinguished under the names of professional and amateur. Of professional money-lenders there are four main types:—

(1) *The village bania* is always a petty tradesman with a small capital, who sells goods on credit and lends money in small sums. He operates in a restricted area, rarely larger than two or three villages.

(2) *The village mahajan's* transactions are always loans in the correct sense of the word and not credit sales. He deals in money and rarely in any kind but grain. He possesses a much larger capital than the village *bania* and operates in a definite but much larger area, varying from a group of villages to a group of districts.

(3) *The sahuکار* as compared with the village *mahajan* is something of a magnate. He is essentially a city businessman operating in rural and urban areas alike. His dealings are confined mostly to land mortgages and to the financing of village *mahajans*.

(4) *The peripatetic moneylender* wanders the country seeking custom, and will deal with anybody whether he knows him or not. Of these wandering usurers the most important is the *qistwala*, who operates all over the province. He works on a system of equated instalments usually known as *qist*; a *qist* is a loan of Rs. 8 or Rs. 10 repayable in ten or twelve monthly instalments of one rupee each. Other wandering usurers are the Kabuli and the Harhia, both of whom work in gangs and are truculent and predatory scoundrels; and the cattle dealer, who sells on credit, recovering the price in four equated instalments, which include interest.

There are also a few minor kinds of professionals: the *banjara* grain dealer of the submontane tracts, the *behari* moneylenders of the western districts, a host of travelling pedlars and hawkers who sell on credit, and finally the *khandsali* or dealer in sugar, who seems to be found only in Rohilkhand.

The amateur moneylenders are mostly landlords or tenants who, possessing surplus resources, use them to finance their fellow cultivators. Apart from these, there are also a crowd of petty amateur usurers of all sorts, for moneylending at the present day appears to be the favourite subsidiary occupation of any villager who can boast of a little capital.

203. It has already been stated that there is no such thing as a system of agricultural credit⁽²⁵⁾. Most types of credit agency are represented, most forms of credit transaction are practised. Not only

(25) Chapter III, para. 93.

so, but the methods of moneylending are infinitely diverse. Rates of interest, documents, incidental charges, the manner of renewal or repayment, all vary, and not only in one direction. They vary with the idiosyncracies of the moneylender himself, with the circumstances of the debtor, with the nature of the security, with the locality. It is impossible to give a systematic account of agricultural credit because there is no system; as the agencies, so the methods. The only possible procedure is to describe the various types of transaction one by one.

204. *Loans in grain*.—As has already been explained, grain is borrowed both for seed and for food. The date for repayment is in both cases the next harvest. In Basti it seems that no interest is charged on such loans if punctually repaid; but that is an exceptional arrangement in a tract where the practice of grain loans is said to be dying out altogether, except in times of scarcity. The normal rates of interest are 25 or 50 per cent. known respectively as *sawai* and *deorha*. Of the two rates the former is the commoner, except in Oudh. Where the advance and the repayment are both made in grain without reference to value, these rates are not so high as they seem at first sight, for the harvest price is invariably below any preceding price in the previous six months. Transactions in this particular form are common amongst professional grainlenders (*bisaria*), or amongst landlords of the type that lend to their tenants as a matter rather of duty than of profit,—a type less uncommon than might be supposed. One landlord is mentioned who lends as much as 4,000 maunds for a single crop, and not only takes repayment in kind without reference to value, but only charges a rate of 12½ per cent. or half *sawai*. With such a rate he must generally either reap no profit at all or a trivial profit.

205. Another common practice amongst grainlenders is thus described by Dr. Jain :—"The moneylenders convert the value of the loan from kind into coin at the current market price They note in their *bahis* this price and also the amount of corn advanced, add to this the interest and receive back the principal and interest, again in kind, after converting the cash entry into grain." ("a). An example will make the transaction clear. The debtor borrows one maund of grain, of which the current market price is Rs. 5; the entry in the ledger is then one maund at Rs. 5. When the time for repayment comes the amount demanded is grain to the value of Rs. 6-4-0 at harvest price. Supposing that price had fallen to Rs. 4, then the

("a) *Indigenous Banking in India*, page 68.

creditor will receive $62\frac{1}{2}$ seers instead of the 50 seers which he would have received had the repayment been made in kind without reference to value.

206. Whatever direct profit the creditor may derive from an advance of grain he will always reap an indirect profit in two ways :—

(1) Whatever the market price may be when repayment is made, he will be able to wait for a rise before he sells. For instance, if in the example given above the price rises once again to Rs. 5, he will be able to sell the $62\frac{1}{2}$ seers of grain which he recovered at Rs. 7-13-0, so that his profit on the whole transaction is 56 per cent. on his outlay.

(2) Unless he makes a speciality of lending grain for seed, the grain which he will advance to the debtor will usually be of poor quality, whilst the quality of the grain which he receives from the debtor will invariably be good. In this, however, there is no fraud. The creditor is a grain dealer, and naturally sells the best of his grain in the ordinary course of business, so that he will only have relatively poor grain to advance as seed. On the other hand, as there is no attempt at grading on the village threshing-floor, the grain recovered will be at all events as good as any that the cultivator possesses.

207. *Illicit gains in grain transactions.*—If at the time of borrowing grain happens to be dear, then the creditor will often refuse to make an advance in kind at all; he will insist on his client borrowing the money and buying the grain, or, which comes to the same thing, that the transaction be regarded as one in cash and not in kind. Where the client is by force of custom or circumstances compelled to deal with only one moneylender, then he has no remedy. He must stand by and watch, whilst the creditor grasps the skirts of happy chance. But where, as in Basti, the cultivator is in a position to choose and even change his corn-chandler, he can always go elsewhere.⁽³⁷⁾ Elsewhere, we are told, there are moneylenders who refuse to receive cash in payment for a grain advance; should the debtor not happen to possess grain, he will have to purchase it, and so make repayment. But the most common fraud practised in connexion with grain transactions consists in manipulating the rate at which advance and repayment are respectively made. If, for instance, the market rate at the time of the advance is 8 seers to the rupee, the *mahajan* will advance at 7 seers; if the rate at repayment is 8 seers, he will demand repayment at 9 seers. The margin is said to vary from a quarter of a seer to a seer, rarely even more. This fraud appears to be almost universal. Elsewhere, notably

(37) In Basti it seems that cultivators make a point of never confining themselves to one *bisaria* (grainlender). To ensure a steady supply they keep up a connexion with several of them. Evidence vol. II, p. 187.

in the Tarai and Bhabar, the same result is achieved by using incorrect measures.⁽²⁸⁾

208. If the debtor fails to repay a grain advance at due date, he is generally allowed a period of grace till the next crop or sometimes for a whole year, but the interest is compounded. For instance, if he had borrowed 4 maunds of grain on a *sawai* basis, making 5 maunds that he ought to have repaid, the debt as carried forward will become 5 maunds plus *sawai*, or $6\frac{1}{2}$ maunds. When the rate is *deorha* then compounding is occasionally on a *sawai* basis, i.e., if the original debt was 4 maunds and 6 maunds with interest, it would after compounding become $7\frac{1}{2}$. More generally perhaps the grain debt is changed into a cash debt, bearing a fixed rate of interest and secured by a promissory note. Very occasionally, if a borrower fails to repay a loan in the same grain, the creditor will allow him to repay in another grain.

209. *The running account.*—As we have seen in an earlier chapter⁽²⁹⁾ debtors often maintain a running account with their creditors, consisting of small sums of cash borrowed from time to time, or credit purchases of grain, cloth and other articles. The only record of such transactions is the creditor's *bahikhata* (ledger), in which they are entered as they occur. All transactions in kind are reduced to terms of money. The account is made up every half year, in Kartik⁽³⁰⁾ and Baisakh. The balance, unless paid by the debtor, will be either carried forward to a new account or, if large enough, form the object of a regular debt secured by a promissory note on a fixed rate of interest.

210. The account is made up in one of three different ways:—

(1) The interest on each advance is worked out from the date when it was made to the date of repayment, or to the date of closing the account. This method, of course, is entirely fair; but only one witness mentions it, so it is probably uncommon.

(2) The account is made up and interest calculated from the date of the first advance to the date of closing the account, after which any repayments made during the course of the period are deducted. This method is unfair. The result of it is that interest is charged on debt that has actually been repaid, from the date of such repayment till the date of closing.

⁽²⁸⁾ There are three methods: (a) a vessel called *nali* with a capacity of $2\frac{1}{2}$ seers is used at repayment, but is calculated as 2 seers; (b) a certain amount of grain, usually half a seer, is put in a handkerchief with the weights, so that the cultivator loses half a seer on every weighing; this fraud is called *loop*; (c) the local *banjaras* have weights of their own of about 18 chattaks to a seer. The excess is $12\frac{1}{2}$ per cent. Evidence, vol. II, p. 27.

⁽²⁹⁾ Chapter III, para. 99.

⁽³⁰⁾ In eastern districts it is Kuar.

In both these cases the rate of interest is usually $37\frac{1}{2}$ per cent.—a high rate; but from the nature of the transactions the total amount actually payable on account of interest is small.

(3) Interest is charged on the sum total of the advances for the whole period, and repayments are subsequently deducted. *Prima facie*, this method of calculation amounts to sheer robbery, since interest is being charged on advances before they were actually made. On the other hand, the rate of interest is usually a relatively low lump rate of two annas per rupee (*doanni*) for the whole period, and not a monthly rate, which reduces the charge considerably. Indeed, on a loan of Rs. 100 made for six months the interest would only be Rs. $12\frac{1}{2}$, as against Rs. $18\frac{1}{2}$ under either of the other two methods.

211. *Sahukari account*.—This is another running account peculiar to the *sahukari* system of some of the western districts, where the client (*asami*) deals with only a single moneylender. We have two descriptions of the method of keeping this account. The first comes from Agra. Here the *sahukar* keeps two accounts, for advances in cash and grain respectively. The grain is charged on the ordinary *sawai* system. The cash advances carry an interest of 2 per cent. per mensem from the date of advance to the date of closing the account. From these accounts any repayments that may have been made are deducted; and the *sahukar* has then the right to buy up the client's crops up to the total sum due, at a rate slightly below the market rate. An example will make this system clear. Let us assume that the debtor has borrowed Rs. 50 at the beginning of the period of six months, of which he has repaid Rs. 20 during the period, and that he has also borrowed 4 maunds of grain at Rs. 5 a maund. When the account is made up he will then owe (1) on the cash account Rs. 50 *plus* Rs. 6 interest *minus* Rs. 20, or Rs. 36; (2) on the grain account, Rs. 25 worth of grain. He will thus be entitled to obtain from the debtor's crops grain to the value of Rs. 61. Let us further assume, for simplicity's sake, that he takes the whole amount in one type of grain, of which the market price is Rs. 4 a maund or 10 seers to the rupee. He will then receive in payment of his full dues $10\frac{1}{2} \times 61$ seers, or in round figures 16 maunds of grain, worth at the market price Rs. 64. His total profit at the time of repayment will then be Rs. 14 or 28 per cent., whilst if he waits for a higher price of, say, Rs. 5, his profit will become Rs. 30 or 60 per cent. The figures speak for themselves.

212. The second method comes from Aligarh, and is somewhat more complicated. Only one account is kept for all borrowings, whether in cash or kind. Advances in kind are shown at a cash value, which in the case of grain is calculated at the highest rate ruling during the

period of the account. The *sahukar* defends this on the ground that he could have sold at that price if he had not lent the grain. At the end of six months the account is made up and interest calculated at the *doanni* rate. Thereafter any repayments made during the period are deducted. On the other hand, if the debtor wishes to repay wholly or partly in grain, then in addition to the interest calculated as above he must pay an additional sum of interest of one anna per rupee calculated on the value of the grain, which grain is taken over at one seer below the market rate. Further, if at the time of borrowing grain is cheap, then it is divorced from the general account and lent separately on *sawai*, being both advanced and repaid at rates which give the debtor a loss of one seer per rupee. In this case, too, an example may be given. The assumptions are the same as in the example given above. The debtor has borrowed Rs. 50 in cash (of which he has repaid Rs. 20) and 4 maunds in grain, which is valued at the highest market rate of Rs. 5-8-0 a maund. The account when made up will then be Rs. 50 plus Rs. 22 (principal) plus Rs. 9 (interest) minus Rs. 20, or Rs. 61. This as it stands gives him a benefit of Rs. 11 or 22 per cent. Let us next suppose that the debtor desires to repay Rs. 30 worth of his debt in one kind of grain, which at the time is being sold at 10 seers to the rupee. The creditor will take it over at 11 seers to the rupee, thus obtaining $8\frac{1}{2}$ maunds. He will also charge one anna in the rupee extra on Rs. 30 or Rs. 1-14-0. The creditor will thus obtain Rs. 31 plus Rs. 1-14-0 in cash and $8\frac{1}{2}$ maunds in grain, which at the time of repayment will be worth Rs. 33, making in all Rs. 65-14-0,—a profit of Rs. 15-14-0 or 31·7 per cent. Further, if he waits till the price of that grain has risen to Rs. 5, his profits will amount to Rs. 24-2-0 or 48·2 per cent. Here again the figures speak for themselves.

213. In the *sahukari* system the only record of debt is the money-lender's *bahikhata*. It appears, however, that they are particularly careful in making up their accounts. The procedure is as follows. On a fixed date after each harvest the *sahukar* assembles his clients and reads to each in turn the details of his account, both for sums advanced and the sums received during the past six months. The client is asked to corroborate each entry; which done, the price of payments in kind made by the cultivator is determined, and interest calculated. The balance is then struck, and the client is told what more remains to be paid. If he pays that balance he is given a receipt. This process is carried on in the presence of a number of other clients, and is generally regarded as entirely satisfactory and honest.

214. *Individual loans*.—The advances in these running accounts are generally small; few individual figures exceed Rs. 30. If the sum is

larger than this, it is usual to make a separate transaction of it. Up to Rs. 99 a promissory note or an unregistered bond is executed. An advance of Rs. 100 or over often forms the subject of a registered bond. The rates of interest in all these cases vary from one to two pice per rupee per mensem (i.e., from $18\frac{1}{2}$ to $37\frac{1}{2}$ per cent. per annum); but far the most common rate in all parts of the province is 2 per cent. per mensem. Promissory notes are renewed every three years, since that is the statutory period of limitation. Whether a bond is similarly renewed at intervals or not depends on whether it mentions a period of repayment. If it does, then renewal will be necessary at or near the end of that period. For larger sums still a mortgage-deed is usually executed. If a mortgage-deed is without possession, the rate of interest will vary, according to the security and the general standing of the debtor, from as little as 6 to $18\frac{1}{2}$ per cent.; 12 per cent. is the most common figure. If it is a usufructuary mortgage, then there is no rate of interest, as the usufruct takes its place.

215. In all these cases it is usual to compound interest at intervals; the rest is usually half-yearly, less often yearly and (very occasionally) on the renewal of the deed.

216. When a debt secured in one method has grown by the accumulation of interest to an extent which the creditor regards as unsafe, he will invariably demand that it should be replaced by some better form of document. Thus accumulated debt, of which the sole record is a ledger entry will be consolidated in a promissory note or bond. Debt secured by a promissory note or bond may become in time the object of a mortgage-deed. When debt secured by a mortgage-deed has accumulated to an excessive figure, then the only solution is sale. On this subject, however, nothing more need be said, as the matter of mortgages has been fully discussed above.

217. *Other forms of loan.*—A *qistbandi* loan is usually secured by a special bond of its own (*tamassuk qistbandi*⁽⁴¹⁾) as well as by an entry in the *qistia's* ledger. The interest is, of course, included in the instalment. The first payment is sometimes taken when the loan is made, so that the debtor actually receives only Rs. 9 in cash. If payment of an instalment is delayed, a penalty of an anna or two is usually exacted for each month in default. The pawnbroker usually advances up to half the value of the ornaments pawned if they are silver, and three-quarters of that value if they are gold. The most common rate of interest is one pice per rupee ($18\frac{1}{2}$ per cent.). The rates of interest

(41) For an example of this document see L. C. Jain, *Indigenous Banking in India*, pages 64 and 65.

charged by the Kabuli or Harhia vary, but are always exorbitant. They are seldom below one anna per rupee per month, and occasionally go as high as 4 annas per rupee per month (75 to 300 per cent. per annum). The sums advanced, however, are usually small, and so long as the usurer gets his interest he is generally indifferent about the punctual payment of his principal; the longer he can keep his unfortunate client in his clutches, the greater the profit he can make out of him.

218. *Additional charges at the execution of a deed or repayment of a loan.*—It is usual whenever a deed of any kind is drawn up to charge the debtor with certain expenses incidental to the execution. These include in every case the cost of the stamp and the writer's fee; others which may or may not arise are the fee for registration, a fee to the patwari for examining his records, and to the witnesses for identification. These charges cannot be regarded as illegitimate; somebody has to pay them, and the obvious person is the borrower who is primarily benefited by the transaction. Other fees, however, which go direct into the pocket of the moneylender are totally unjustifiable. Many of them have names of their own. There is, for instance, the *gunth khulai* which is common in some parts of the hills. The amount is between 2 and 6½ per cent. Others are *gaddi kharch* found in the neighbourhood of Allahabad; the *katauti* of Muzaffarnagar (6 pies in the rupee); the *battatan* of Allahabad which may be as much as 20 to 25 per cent.; the *tipawan* of Sitapur (1 or 2 per cent.); the *salami* of Gorakhpur (10 per cent.); the *paharwa* of Basti (5 per cent.); the *khudai patai* of the trans-Sarda tracts (5 per cent.) and the *daftar kharch* of Ghazipur, which is, as its name implies, a contribution to the office expenses of the money-lender.⁽⁴²⁾ Many of these charges are said to be moribund; they certainly would be better dead. Some sort of commission or discount, however, is prevalent in many places, which may be as small as 1 per cent. and as large as 10 per cent.; generally speaking, the larger the loan the larger the discount. In one or two places it takes the shape of grain even if the advance is in cash. In Sitapur, for instance, 2½ seers is charged for every cash advance, in Gorakhpur the debtor makes his moneylender presents of *gur* or *ghi*. In Jhansi he has to provide him with the use of his cart free, and supply him with fodder, milk and *ghi* below market rates. In Partabgarh and Kheri again there is a payment called *oop*, of 2 seers of grain in addition to interest.

(42) The meaning of the other terms is as follows :—“*Gunth khulai*”—untying the knot (in the loin cloth where money is kept); so, opening the purse. “*Gaddi kharch*”—expenses of the *divan* (on which the moneylender sits at his business). “*Katauti*, and “*battawan*” both mean discount. “*Tipawan*” or *tipawan* means libation or offering—thus suggesting a religious origin. “*Salami*” is a present on introduction, an introductory fee. “*Paharwa*” is of uncertain meaning—possibly connected with *pharwa* to return. “*Khudai patai*” means digging up and levelling,—i.e. of the hole where the money is hoarded.

Curiously enough we hear little of any charges for charity, such as are common when selling grain in a market. They are mentioned in only two places, Lucknow (*dharmada*) and Ghazipur (*goshala*).

219. Illicit charges of this kind appear uncommon on the repayment of a loan; in fact the only instance mentioned comes from Allahabad. Here we are told that when a debtor is repaying a loan, the creditor demands from him three gifts known as *Ganeshi ka pao*, *mahajani pao* and *barkat* (blessing). The *pao* is one-quarter of a seer, but by the market measures is equal to three-quarters. For the God Ganesh it is paid once, but for the *mahajan* it is paid once for every four rupees' worth of grain. The "blessing" costs half a seer, which is probably as much as it is worth. Thus if the transaction is worth Rs. 40, the *mahajan* will get in all 8½ seers free.

On the other hand, it is quite common for a creditor to reward a debtor for punctual payment by a reduction in the amount of interest (*chhut*). The amount of the reduction varies, but is sometimes as much as 50 per cent. of the interest charged.

220. *Illicit practices*.—Two practices are found amongst moneylenders, which are not only illegal but highly dangerous. The first consists in causing the debtor to execute a deed for an amount much larger than that lent; the other in causing him to place his thumb mark or signature on a blank deed form, which the creditor retains and can subsequently fill up for such amount and in such manner as he chooses. One object of these practices is to ensure that should a lawsuit ever become necessary, the amount of the decree will suffice to cover all the creditor's legal expenses, and also make up for the loss of interest which he is certain to suffer as the result of the reduction of the rate by the court. But the principal object is to keep the debtor completely under the control of the creditor. For if he proves unpunctual in payment or recalcitrant in any way, the creditor can then sue him for an amount much larger than that which he actually borrowed; and it will generally be quite impossible for the debtor to prove that the document is false. It is said indeed that these documents are rarely, if ever, used, being merely held in *terrorem* over the debtor's head; and that the debtor will always be permitted to repay the amount which he actually borrowed, whatever amount may have been entered in a deed. There is little reason for doubting that this is true. Nevertheless, such documents cannot be too strongly condemned.⁽⁴³⁾ Another common practice of moneylenders is to refuse to accept repayment in instalments; they insist that repayment should

(⁴³) A variation of this practice is to cause the debtor to give a receipt for a sum larger than the amount actually borrowed. Similarly, if it becomes necessary to renew an existing bond and the creditor has reason to fear contumacy on the part of the debtor, the new bond is frequently much in excess of the amount really due.

be in one lump sum. This practice, though not illegal, is undesirable. Few debtors can find the money for full repayment, unless indeed they borrow from a second moneylender with that object; and consequently they remain permanently in the power of the creditor. Finally, it is often said that moneylenders keep false accounts and manipulate interest charges to the detriment of their clients; and our witnesses occasionally, though in a very vague way, subscribe to this charge. Of this we have no proof whatever; and the income-tax officers, who have given evidence before us and certainly should know whether the charge can be maintained, are entirely silent on the subject. Indeed, they affirm that no moneylender would ever object to showing a client his account if he wished to inspect it. No doubt mistakes occasionally occur, but as the statement of account reproduced in a preceding chapter⁽⁴⁴⁾ shows, those mistakes are not always in favour of the moneylender. As for manipulation of interest charges, actual cases are occasionally quoted in our evidence which undoubtedly suggest it, but the practice is probably uncommon. The legitimate profit which a moneylender can make is large enough to make such manipulation generally unnecessary.

221. *Relations between agricultural debtor and creditor.*—The relations between the peasant and his *mahajan* are usually stated in terms which suggest that the former is a helpless and ignorant fool in the clutches of a powerful and unscrupulous knave. But "general notions are generally wrong;" and this notion requires no little modification. The moneylender is much less of a knave than is commonly supposed, and the peasant not so much of a fool. There is indeed one type of moneylender whose operations are peculiarly dangerous to the cultivator, namely, the man who lends money not merely as an investment but as a means of ultimately acquiring his debtor's land. Such usurers are usually wholly devoid of conscience and even dishonest in their dealings. They are to be found mainly amongst those agriculturists who desire to extend their holdings or amongst the big professional moneylenders who are ambitious of becoming landed magnates. The majority of moneylenders are men to whom moneylending is a business, out of which they must, as the Agricultural Commission remind us, earn their livelihood.⁽⁴⁵⁾ All their transactions are governed by business principles. The moneylender must provide, as far as he can, safeguards against the risks which he runs, and therefore his rates of interest must vary partly with the amount of the loan, partly with the nature of the security on which it rests. The security of the small *bania* is ultimately a second call on his client's crop, or even a third call, if a co-operative society

⁽⁴⁴⁾ Chapter III, para. 99.

⁽⁴⁵⁾ Agricultural Commission's report, page 431.

exists; but if the monsoon fail or a plague of locusts attack the village, there will be no crop and he must wait for his money. In such circumstances it is scarcely surprising that he manipulates the rates at which he lends grain so as to benefit himself, and reduces his chance of loss by petty exactions in the nature of discount. So, too, with the bigger money-lender, *muhajan* or *sahukar* or *sarraf*. If he be asked to lend Rs. 500 on a first mortgage of land worth Rs. 2,000, his rate of interest will probably be 6 to 9 per cent. and compare favourably with that of a joint-stock bank. If he be asked to lend Rs. 1,500 on the same mortgage or to lend Rs. 500 on the security of movable property, such as ornaments or cattle, then his rate of interest would probably be between 12 and 18 per cent. If he knows the borrower to be reliable and relatively free from debt, he will probably be willing to give him a loan on nothing better than a promissory note at 20 to 24 per cent. In short, as the amount of the loan rises or the value of the security falls, so will the rate of interest rise, until the stock figure of 37½ per cent. is reached, or the 44 per cent. of the *qistbandi* system,—figures which imply an almost complete absence of any security save the borrower's personal reliability. Nor are these the only factors of which a moneylender must take account. He must in the first place consider the probable circumstances should it become necessary to sue his debtor. He knows that in such a contingency there are many devices by which the debtor can defeat his claim, and he knows too that the debtor, with the assistance of his friends and relations will use them all, from the dilatory application for adjournment to the insolvency application. He knows that with certain types of debtor he has little chance of ever seeing his principal again, and will be lucky if his interest is regularly paid. In such circumstances, such devices as the compounding of interest and the execution of a bond for double the amount due become intelligible. Other more general elements enter into his calculations. For instance, though his debtor's financial position may have been sound enough when he first gave him the loan, that position may since have deteriorated; or he may have learnt of a better investment for his money; or it may be that the moneylender from whom he himself has raised a loan is pressing him for repayment. In all these circumstances he will find himself compelled to put pressure on his own debtor, either to repay or to accept a renewal of his old debt on less advantageous terms. The following example, which is vouched for by one of our most important witnesses, shows the working of these various factors in the moneylender's calculations. "A land-owner of some wealth got into difficulties and proceeded to borrow large sums of money. He mortgaged his property in the first instance to the bank for 6 per cent. and then obtained money on

promotes at 12 per cent. from ordinary moneylenders. As his position became worse—a fact which was well known—the rates of interest steadily rose till they reached 24 per cent., while moreover the moneylenders in the later stages of the proceedings executed bonds for twice the amount which they had loaned. The final stage of the proceedings was that the land-owner raised money on second and third mortgages of his property. Needless to say, in the end the usurers did not recover any sum approaching the loans originally made by them or their interests." Remembering all these facts, we find it difficult to brand the whole class of village moneylenders as unscrupulous usurers. And, indeed, there are many moneylenders who display in their relations with their debtors not only leniency but generosity. There are many landlords who lend both money and grain to their tenants on their personal security, on terms as favourable as would be granted to the landlords themselves on the security of a land mortgage. Other agriculturist moneylenders, both landlords and tenants, show similar generosity not only to their own relatives, but to their fellow castemen. One of our witnesses, who had made special inquiries into moneylender's malpractices in a particular village, states that in respect of a total debt of Rs. 95,000 there were in all only three complaints. The first was that a single instalment of money repaid had not been entered up in the moneylender's account; the second was a general complaint against the compounding of interest, which, it may be noted, only took place on the renewal of the bond instead of half-yearly or yearly as is the usual practice. The third was that of a Rajput who, having borrowed six rupees was made to execute a bond for sixteen rupees with interest at 48 per cent., and thought he was hardly treated when, on repaying the sum three days later, he had to pay 11 annas interest,—forgetting that this miserable little transaction had given the moneylender as much trouble and work as if the sum involved had been Rs. 600 instead of six rupees. For the rest, this witness reports that most of the moneylenders concerned are very liberal in their dealings with their clients, whilst one had the reputation of never having filed a suit against any client. "The chief evil in a moneylender's credit is not his high rate of interest or the falsification of books, which is practised by a minority of the class, but the fact that he grants loans for unprofitable as well as profitable objects and in amounts in excess of a borrower's means, and does not insist on prompt repayment on a good harvest. His ambition naturally is to see his money well invested and to live on the interest." (") This statement from a well-known authority we regard as a fair description of the village moneylender and his methods.

(⁶⁶) Paper by Mr. S. Strickland, J.C.S., (retired) read before the East India Association on March 18, 1930 (*Pioneer* of April 19, 1930).

222. So much for the alleged knavery of the moneylender. As for the ordinary peasant, he knows exactly where he stands with his *mahajan*; by dealing with him he secures three advantages which no other credit agency offers him. *Firstly*, the *mahajan* will lend him within reason as much money as he wants without making troublesome inquiries into his financial position; *secondly*, he will pay him the money when he wants it without delay; *thirdly*, he will not press for repayment if he knows repayment to be temporarily inconvenient. These are privileges which the rural debtor appreciates, which he will not readily jeopardize and for which he is quite prepared to pay. Accordingly, he does not antagonize his *mahajan* by injudicious objections to his business methods, and submits to his petty exactions as the price of his goodwill. Especially he is careful, whenever circumstances permit, to be prompt and punctual with his payments, for thus alone can he retain his favour. In a word, the peasant knows perfectly well that he cannot do without the moneylender and acts accordingly, and the relations between the two are far more cordial than are usually supposed.

223. *Tagavi*.—The Land Improvement Loans Act of 1883 and the Agriculturists' Loans Act of 1884 empower local governments to advance loans to agriculturists from State funds and to frame rules governing the issue of such loans. The generic name for such advances is *tagavi*. Short-term *tagavi* is granted under the Agriculturists' Loans Act for productive purposes, generally for purchase of seed and cattle, and is recoverable from the produce of the harvest for which it is given. The security in such cases is ordinarily the joint personal security of a number of cultivators of the same village grouped together for the purpose (*zangirabandi*). Long-term *tagavi* is granted under the Land Improvement Loans Act to finance permanent improvements, such as the sinking of masonry wells, or the erecting of embankments. These loans are repayable by instalments spread over a number of years, and are usually secured on landed property.

224. The demand for loans for permanent improvement is limited, and applications for this purpose are rarely refused, provided the security is satisfactory. The demand for loans for seed and bullocks varies greatly; in ordinary years its extent is small, but in years of adversity it is almost unlimited. *Tagavi* then forms a valuable adjunct to private sources of credit, especially as these have a tendency to dry up at such times.

225. And there is no doubt that the liberal and carefully regulated distributions of *tagavi* that take place, whenever a calamity occurs, are much appreciated. Nevertheless, it is true that in ordinary times the

cultivator much prefers to borrow from the professional moneylender than from the government, in spite of the much higher rate of interest that the former charges. This is due, not to any defect in the Acts themselves, but to the manner in which they have been worked, a matter regarding which we have received a mass of criticisms, which can be summarized thus.

226. *Preliminary inquiries.*—Distribution is preceded by preliminary inquiries to ascertain the nature of the security and the extent of credit required. These are made by the lower revenue staff, patwaris and qanungos, and too much reliance is placed upon their recommendations. These, it is said, bear little relation to facts: it is not the poor man's case which is recommended, but that of the patwari's friend or relative.⁽⁴⁷⁾ The result is that *taqavi* goes not to the man who really needs it, but to the man who possesses or purchases the patwari's goodwill.

227. *Delay in distribution.*—Even when special arrangements have been made, as in times of calamity, to multiply distributing centres, they are few and far between, and the peasant must waste precious time on the road, which is rarely less than one day in each direction, and often a great deal more. In the hills, for instance, it may be as much as a week in going and another in returning. Further, he has generally to wait a day or two before his name is called, and he receives his money. The expenses which he thus incurs considerably reduces the benefit accruing from the low rate of interest which is charged for a *taqavi* loan. And if by chance he fails ultimately to secure a loan he not only loses both his time and his money, but must apply, belatedly, to his usual moneylender, who, resenting his client's attempt to borrow from another than himself, will not fail to exploit his necessity to the utmost.

Further, *taqavi* in any large quantity is seldom distributed till the last possible moment, so late that it loses much of its value. A loan for the purchase of seed is useless once the time for sowing is past: it will be taken, no doubt, but it will be applied to some other purpose. And even if there is still time to sow, yet distribution will still, as a rule, be so belated that good seed is scarcely procurable. In distributions of *taqavi* the old saw is of special force,—“*bis dat, qui cito dat*”—, he gives twice, who gives quickly.

(47) A story is told that during a large distribution of *taqavi* some few years ago, the recipients included the patwari's parrot and his pony. The story is so good that it ought to be true.

228. *Amount.*—The amount allotted generally falls short not only of the demand (which may be exaggerated), but of the need. Yet, surely it is useless to give a tenant Rs. 10 for seed who needs Rs. 50. The loan will be accepted, because every little helps; but it will certainly be misapplied.

229. *Collection.*—The methods of collection are freely described as unduly rigid and oppressive. In theory a *tagavi* loan is repayable in one sum at harvest time, but in practice repayment is rarely demanded till after the claims of both *mahajan* and landlord have been satisfied; both, being on the spot, can and do see to it that no other claim takes precedence of theirs. And so, when the debtor is called on to repay, his cash is usually exhausted; and since he knows that no grace will be given to him, he must either borrow from a *mahajan* to pay government or he must sell a part of his property. But his assets are limited—his land, a pair of bullocks, an unsaleable house, the clothes he stands up in, seed for the next crop, a few agricultural implements, a stock of home-grown food and the utensils in which to cook it. The method of collecting *tagavi* in short defeats its very object, and brings little less misery in its train than the usurer's methods. Again, each successive crop carries its own debt, and if one fails, the next carries a double burden; and only if it is a bumper crop can it do so adequately. In other words, a cultivator can rarely cover one failure by less than two consecutive successes, and accordingly requires more time for repayment than the *tagavi* rules allow him.

230. *Corruption.*—These are the chief complaints which arise out of the working of the Acts; but there are others, no less serious, which are external to it. The first of these complaints relates to the corrupt practices prevalent amongst the lower staff, alike at distribution and collection. One fee is demanded before an application is recommended, another when the security is verified, a third when the loan is actually paid. And the fees are said to be high,—as much as 10 per cent. on payment, as much as 37½ per cent. on verification. On collection, too, the *siyaha-navis* (accountant) and the treasurer at the tahsil must receive *nazrana*, which is usually one per cent., with a minimum of Rs. 2. But if repayment is delayed, the cost is greater still. The peon who serves the notice, the amin who executes the warrant of distraint must be both fee'd and fed. No amount of vigilance by higher officers has yet succeeded in stopping such malpractices, with the result that the effective cost of a *tagavi* loan has been estimated at not less than 25 per cent.

231. *Mahajan versus government.*—There are other minor complaints relating to such matters as the nature of the security and the com-

plexity of the accounts; but enough has now been said to show that though public opinion may approve of the general principle of *taqavi* loans, it strongly disapproves of the methods in which these are both distributed and collected. It is not surprising, therefore, to read of villages which have foresworn *taqāvi* altogether after a single experience, or to hear that most peasants prefer the methods of the *mahajan* to those of government. For he is much more accommodating in the matter of distribution, much less rigorous in the matter of collection, and, after taking into account the numerous exactions which accompany the grant of a *taqavi* loan, he is also scarcely more expensive.

232. *Volume of agricultural credit.*—We have estimated the total debt at 124 crores. Of this some 70 crores represents long-term investment in mortgages. Money is required annually to finance an average of 5½ crores of fresh mortgage debt, but it is safe to assume that this figure is covered in ordinary years by money obtained from the redemption of old mortgages; so that the provincial mortgage debt may be regarded as financing itself—all the more so since the payments of interest on such debt are available to form fresh capital and finance fresh advances. Excluding mortgage debt, the debt amounts to 54 crores. Of this 54 crores some 20 per cent.⁽¹¹⁾ represents advances in kind,—a figure of 11 crores; the balance of 43 crores is cash. On the basis of the observed distribution between the various classes of moneylenders a sum of Rs. 3,94,00,000 is the amount of debt outstanding to the credit of government and the co-operative credit societies.⁽¹²⁾ This leaves a sum of Rs. 39,06,00,000 which has been advanced by the professional moneylenders, landlords and tenants, divisible between these as follows :—

	Rs.			
Professional moneylenders	15,62,00,000
Tenants	17,36,00,000
Landlords	6,08,00,000

The amount of credit required, therefore, to finance agricultural debt, apart from advances in kind and advances made by government and co-operative credit societies, is just over 39 crores.

233. We have been supplied by the courtesy of the Income-tax officers with an estimate of the capital available in the hands of the

⁽¹¹⁾ See para. 181.

⁽¹²⁾ So far as can be ascertained without a detailed examination of the *taqavi* accounts, the sum outstanding at the time when our statistics were taken was about 110 lakhs. On the percentages mentioned the figure would be about 108 lakhs—a small point which supports our estimate.

rural and urban moneylenders. The figure for rural moneylenders is 765 lakhs. To this, however, must be added certain other sums.

(1) The town moneylender invests freely in rural areas. We estimate the credit thus supplied at $2\frac{1}{2}$ crores (apart, of course, from his mortgage transactions referred to above).

(2) A very large proportion of all rural moneylenders have incomes below the taxable limit, whose transactions do not come within the purview of the Income-tax department. It is necessary, therefore, to estimate the capital of such moneylenders. In this we were assisted by Rao Bahadur Lachhman Sitā Ram Kher, Assistant Income-tax Commissioner, who examined old returns of the time when the income-tax limit was Rs. 1,000 in place of the present figure of Rs. 2,000. As a result of his investigations he has given us, as an estimate of the capital belonging to moneylenders with incomes between these two figures, a sum of $4\frac{3}{4}$ crores. For the numerous moneylenders whose incomes are below Rs. 1,000 we estimate a further sum of 5 crores, making in all 19.90 lakhs, or a round figure of Rs. 20 crores.

234. It is necessary at this stage to point to two factors which modify the Income-tax department's principal estimate of 765 lakhs.

(1) The estimate of capital is calculated on the basis of the interest actually recorded. This method involves a certain amount of duplication. If A lends Rs. 1,000 to B at 6 per cent., and B subsequently lends the same sum to C at 9 per cent., then the interest recorded for purposes of income-tax will be Rs. 60 in the case of A and Rs. 80 (Rs. 90 minus 60) in the case of B. The capital calculated on this basis will amount to Rs. 1,500, though the sum actually in existence is only Rs. 1,000. To the extent, therefore, that money is borrowed to be re-lent, the estimate of capital is exaggerated.

(2) Interest is recorded for the purposes of income-tax only if it has actually been paid. It is, however, well known that interest on agricultural debt often remains unpaid, with the result that the corresponding capital has not been taken into account and that the Income-tax department's estimate is to that extent too small. In a year such as the present there can be little doubt that the former cause of error is outweighed by the latter; and we accordingly feel no hesitation in increasing the figure of 765 lakhs by half a crore on balance. Accordingly, the total sum of professional credit may be taken at $20\frac{1}{2}$ crores in cash; to which must be added a sum of approximately $5\frac{1}{2}$

crores on account of fresh mortgages and 550 lakhs in kind, mostly grain.⁽²⁰⁾

235. So far as capital available to amateur moneylenders, viz., landlords and tenants is concerned, we have no means of framing an estimate. It is, however, obvious that the capital available to them must be at least equal to the amount of the outstanding debt, viz., 1696 lakhs or round 17 crores in the case of landlords, and 550 lakhs in the case of tenants. The margin between capital and debt in the case of these moneylenders is not likely to be as large as we have found it to be in the case of their professional brethren (2050 lakhs minus 1522 lakhs which gives a margin of roughly 35 per cent.). We are inclined to put the margin at 10 per cent. in the case of landlords and 5 per cent. in the case of tenants, making a total of 2 crores. To this must be added capital in the shape of grain to the extent of 550 lakhs, of which $1\frac{1}{2}$ crores belong to the tenants and $4\frac{1}{2}$ crores to the landlords.

236. The volume of credit may now be summarized thus :—

1. Professional moneylenders	...	...	...	26 crores.
2. Landlords and tenants	...	...	...	25 "
3. Government and co-operative credit societies	...	...	...	4 "
4. Grain	...	...	...	11 "

In short, a total debt of 124 crores is financed by active capital of 66 crores, to which must be added permanently invested capital to the extent of 70 crores. Or, in other words, the total capital invested is 124 crores, with a margin of 12 crores, or nearly 10 per cent. of the invested sum. It has to be remembered, however, that the debt at the present moment is unusually high, that in ordinary times it probably does not exceed 110 crores, and that the normal margin of capital over debt would then be 26 crores or nearly 24 per cent.

C.—Effects of indebtedness.

237. *Effect of agricultural indebtedness on transfers of property.*—Since land is the only security available to rural borrowers, it is inevitable that their indebtedness should result in the transfer of large areas of land, and that such transfers should usually be from the agriculturist to the non-agriculturist. The process is commonly regarded as deplorable, not only because it involves the degradation of the landlord to the position of a mere tenant, but because the substitution for a hereditary cultivator of a mere receiver of rents,—a man who does not himself cultivate or know anything about cultivation,—is likely to result in impairing the fertility of the land. Such a man,

⁽²⁰⁾ Transactions in grain have been omitted from the Income-tax department's estimate. The "interest" on such transactions is regarded as a part of commercial profits, which the income-tax officers did not take into account in framing the estimates. Yet another cause may be mentioned that vitiates these figures, namely that the full income is not always returned.

it is said, will never spend any money on land improvement. He will regard the purchase of land as he would any other investment. His only object will be to make money out of his tenants, as much as he can and as fast as he can. It is impossible, however, to accept this reasoning without much modification. The landlord, who is dispossessed generally belongs to one of the higher castes whose degradation is due entirely to his own extravagance, and deserves little sympathy on that account. He is always himself a poor cultivator, and as often as not a bad landlord. The non-agriculturist purchaser could scarcely be a worse, and in practice is very often a much better landlord. Being a business man, he knows that there are industries in which a larger profit can only be obtained by enlarging expenditure; and he quickly learns, if he does not already know it, that agriculture is one of those industries. The Khattri or the Rastogi is in fact *much more likely* to spend money on the improvement of their land than the Rajput or Muslim, whom they have replaced; indeed, as they are apt to regard their land rather as a hobby than as a source of income, they are likely even to spend extravagantly, as a man will on his hobby. Nor is it necessarily true that a non-agriculturist landlord bullies his tenants. Those who attempt it usually learn that three or four stiff-necked occupancy tenants can make things very unpleasant for their landlord, and will not hesitate to do so if they are given sufficient provocation. The landlord, having the longer purse, may win in the end, but the struggle will not leave him unscathed. Moreover, in India as in England, the city man who becomes a landowner usually prefers to play the benevolent squire, and is at least as likely to display leniency with his tenants as severity.

238. Nevertheless, the expropriation of a hereditary cultivating class by non-agriculturists is not a matter which can be regarded with indifference; and it is necessary for us to consider to what extent agricultural indebtedness has resulted in such transfers. On this matter our evidence is neither decisive nor unanimous. A majority of witnesses assert that such transfers are increasing, but an appreciable minority deny it, whilst few give any facts and none give any figures in support of their views. And, indeed, figures bearing on this matter are not easy to come by. Rent-rate and settlement reports generally contain tabular statements comparing the distribution of the land amongst proprietors by caste at the last and the previous settlement. We have examined a number of these, but they are apt to be misleading. They show the state of affairs at the beginning and end respectively of a long period, never less than thirty years, and in recent settlements sometimes as long as forty or even fifty years. All that

it is possible to deduce from such figures is that certain castes have gained and others have lost land during that period; but there is nothing to suggest the circumstances in which, or the particular dates at which, the transfers took place. The figures, for instance, may represent a few large, or many small, transactions. The transfers may belong almost entirely to the earlier part of the period, when they cease to be of any present importance; or they may belong almost entirely to a later part, when their importance is intensified.

239. The results of our examination of such figures can be very briefly summarised. We have examined some thirty rent-rate reports relating to five settlements that have recently been completed, namely Unao, Budaun, Partabgarh, Lucknow and Agra, and also the figures of the Rae Bareilly settlement, which are reproduced in the evidence.⁽⁵¹⁾ After some adjustment of the figures (which have been shown in different ways in different reports), the principal results are as follows :—⁽⁵²⁾

						Acres.
Rajputs	..	..	..	..	..	—263,000
Muslims	..	..	..	..	..	—54,000
Brahmans	..	..	..	..	..	+153,000
Other agriculturists	..	..	..	..	..	+26,000
Non-agriculturists	..	..	..	..	..	+107,000

240. The general conclusion emerging from these figures is that whilst Rajputs and Muhammadans have lost heavily, the consequent gains have not all gone to the non-agriculturist classes. Indeed, by far the largest gainers are the Brahmans, whilst other agriculturists, (which in these particular districts mean principally Kurmis, Ahirs, Ahars and Jats), have also made considerable acquisitions. And, it can safely be asserted that of all these transfers by far the greater part was the direct result of indebtedness; and that the new landowners, whether Brahman, Kurmi, Jat or Vaish, are the moneylenders to whom that debt was due.

241. By the courtesy of the Revenue department we have also had access to figures collected in 1926-27 which show transfers of land

⁽⁵¹⁾ Evidence, vol. III, p. 198. The rent-rate reports though numerous did not cover the five districts entirely.

⁽⁵²⁾ The difference between gains and losses is due (a) to the omission of Government land in which there was a considerable increase as a result mainly of the building of the Sarda Canal, (b) to minor differences resulting from resurvey. It may also be mentioned that the Muslim loss is reduced by crediting to this head all lands shown as waqf.

as between certain social classes during the period 1315 to 1333 F, corresponding to 1907-08 to 1925-26 A.D. The castes and classes for which figures were then taken out are as follows:—

(1) *Agricultural*—(a) Ahars and Ahirs, (b) Bishnois, (c) Rajputs, (d) Gujars, (e) Jats (f) Kurmis, (g) Tagas, (h) Muslims.

(2) *Non-agricultural*—(a) Goshains, (b) Kalwars, (c) Mahajans,—Banias, Sadhs, Marwaris and Kandus.

(3) *Doubtful*—(a) Bhuinhars and Brahmans, (b) Kayasthas, (c) Khattris.

The classification is curious, and for our own purposes we have made some modifications.

(1) Tagas like Bhuinhars claim to be Brahmans who abandoned the priesthood for landowning and cultivation. If Bhuinhars are to be classed with Brahmans, so should Tagas; and we have added their figures together. Tagas belong entirely to the Meerut and Rohilkhand divisions, Bhuinhars to the Benares and Gorakhpur divisions.

(2) There can be no doubt that the status of Khattris and Kayasthas is non-agricultural, and we have transferred them to that category.⁽⁵³⁾

Thus rearranged, the figures (which represent thousands of acres) are as given in the table below:—

Division.	Rajputs			Muslims.		
	Area in.		Differ- ence.	Area in.		Differ- ence.
	1907-08.	1925-26.		1907-08.	1925-26.	
Meerut	572.	571.	—1.	1,327.	1,181.	—146
Agra	1,665.	1,635.	—30.	577.	569.	—8
Rohilkhand ..	1,638.	1,408.	—23.	1,962.	1,926.	—36
Allahabad ..	1,718.	1,634.	—84.	921.	884.	—37
Benares	1,392.	1,365.	—27.	494.	478.	—16
Gorakhpur ..	1,670.	1,638.	—32.	668.	676.	+8
Lucknow	3,959.	4,165.	+206.	1,418.	1,380.	—38
Fyzabad	3,96 .	3,919.	—43.	1,546.	1,483.	—63
Total	10,341.	10,230.	—111.	8,963.	8,532.	—431

(⁵³) There are other curiosities in this classification. It is not, of course, complete; a large number of both agricultural and non-agricultural castes are omitted, many of whom are important. Yet room is found for special mention of Bishnois, Goshains and Sadhs, none of which are true castes but sects which have become castes, and which between them do not number more than 150,000 at most. The classification of the principal non-agriculturists is also unsatisfactory. Mahajan and Bania are not castes, but occupational names; Sadh is a sectarian caste whose principal industry is calico printing and not moneylending; whilst there is no more reason for mentioning the Kandu (grocer) than the Halwai (confectioner) or the Teli (oil presser).

Division.	Brahmans, Bhuihars and Tagas			Agricultural other.			Non-Agricultural.		
	Area in.		Diff- er- ence.	Area in.		Diff- er- ence.	Area in.		Diff- er- ence.
	1907-08.	1925-26		1907-08.	1925-26		1907-08.	1925-26.	
Meerut ..	557,	571	+14,	1,809.	1,821.	+12,	983,	1,183,	+200,
Agra ..	931,	1,017.	+86,	810,	822,	+12,	1,234,	1,109,	-125,
Bhojpur ..	659,	700,	+41,	730,	768,	+38,	1,128,	1,054,	-74,
Allahabad ..	1,507,	1,440,	-67,	294,	341,	+47,	1,067,	1,139,	+72,
Benares ..	870,	938,	+68,	11,	24,	+13,	834,	485,	-349,
Gorakhpur ..	2,098,	2,101,	+3,	404,	427,	+23,	854,	830,	-24,
Lucknow ..	621,	709,	+88,	140,	157,	+17,	713,	785,	+72,
Fyzabad ..	852,	890,	+38,	34,	51,	+17,	835,	848,	+13,
Total ..	8,095,	8,385,	+290	3,789,	3,609,	-180,	6,948,	7,602,	+654,

These figures show the non-agriculturists as relatively larger gainers and the Rajputs as relatively smaller losers, than the settlement figures quoted above. The explanation, of course, is *firstly*, that the two sets of figures refer to different periods; and *secondly*, that the settlement figures relate to only six districts whilst these figures relate to eight divisions out of ten. There is, however, a close general correspondence. In both sets of figures the losers are the Muslims and the Rajputs, and everybody else has gained. Here, too, there can be very little doubt that the greater part of the loss is the result of indebtedness and that the gains have gone principally to the moneylenders who financed the debt.⁽⁵⁴⁾

242. Whilst the losses shown in this table amount to 542,000 acres, the gains exceed them by no less than 530,000 acres; a discrepancy due to the fact that the figures relate only to the castes or classes mentioned, and not to all. The greater part of this additional loss can probably be explained by—

- (1) sales of European estates: there have been several such in Gorakhpur, Basti and several other western districts;⁽⁵⁵⁾
- (2) sale of Sikh estates: in recent years one such estate at least has changed hands (Rae Bareilly);

⁽⁵⁴⁾ The Tagas included in the Brahman group here have actually lost land, whilst the Bhuihars (whose figures are not separate) are believed to have gained little, if at all.

⁽⁵⁵⁾ One of the survey reports was made in a village which formerly belonged to a European owner and has since been sold to a Vaish.

- (3) sales of estates belonging to Nanakshahi and possibly to other *faqirs*. We understand that in some parts of the province *faqirs' akharas* own considerable areas of land with which they have been recently parting;
- (4) in Oudh, purchases of land by government in connexion with the Sarda canal.

243. Our general conclusion, therefore, is that certain agricultural classes, notably Rajputs and Muslims, have in recent years lost a considerable area of land. The cause in most cases was undoubtedly their indebtedness. Of this land about 60 per cent. has passed into the hands of non-agriculturists, generally the creditors of the dispossessed owners. The rest has passed into the hands of other agriculturists. There can be little doubt that the debt which caused these losses was born of extravagance, itself the result of a desire to maintain social prestige. In such circumstances we cannot regard ourselves as justified in recommending an extension of the Bundelkhand Land Alienation Act to the whole or any other part of the province. So far as the transfers have been to agriculturist purchasers, the change was almost certainly for the better. So far as the transfers were to non-agriculturist purchasers the change was not necessarily for the worse. Considering all the circumstances, there may be, we think, cause for a further and fuller inquiry with the object of obtaining later and more complete figures. But beyond that we are not prepared to go.

APPENDIX I.

Statistics and estimates of debt.

1. *Land mortgages.*—The records in the Registration department do not distinguish between mortgages of land and mortgages of other property. The Inspector-General, however, was good enough to cause a detailed classification to be made of the returns of four districts. The four districts selected for detailed classification were Agra, Bareilly, Saharanpur and Partabgarh. Of these the first three contain cities of different sizes: the population of Agra is over 185,000, that of Bareilly 129,000 and that of Saharanpur 62,000; the fourth had practically no urban population at all. Since land mortgages are almost exclusively of rural, and mortgages of other property are almost exclusively of urban origin, the four districts exhibited totally different ratios between land mortgages and other mortgages as follows:—

- (1) Agra 45 land, 55 other.
- (2) Bareilly 54 land, 46 other.
- (3) Saharanpur 74 land, 26 other.
- (4) Partabgarh 94 land, 6 other.

These classified statistics are reproduced in Table I. The securing of a loan by a mortgage with possession of a crop is curious; yet there are six cases of it in Saharanpur, and thirteen other cases where the crop is mortgaged without possession. Of the *jajmania* mortgaged, one in Partabgarh was a Brahman's *purohiti*, or priestly dues. Certain others belong to Mahabrahmans (funeral priests). Most of them, however, belong to Bhangis (scavengers). The mortgages of gardens and trees range from Rs. 20 on a single tree to Rs. 2,000 on a garden.

2. The Inspector-General also provided us with (1) the figures of mortgages by districts for 1928, which are given in the sixth column of Table II; and (2) the provincial totals of mortgages for the last twelve years. These are given in Table III.

3. With the help of these figures we have framed the estimates of land mortgage debt which are discussed in paragraphs 156-157. The method of calculation was as follows:—

- (1) The districts of the provinces were arranged in groups corresponding in their general attributes to the four sample districts for which we had classified figures. The percentages mentioned above were modified to suit local

circumstances: for instance, in Bundelkhand, land mortgages, as a result of the Land Alienation Act, are unpopular, whilst in the permanently settled districts they are more than usually numerous because certain classes of tenants have a transferable right.

- (2) As the figures of the registration department are those of the registration circle, the district percentages were then combined as requisite, being weighted on the basis of population. Finally, they were applied to the circle statistics.
- (3) The sub-division of the total land mortgage figures into ordinary and usufructuary was carried out in a similar fashion.

The result was the figures in Table II.

According to the figures of the four districts the proportion of usufructuary to all land mortgages is 32 per cent. It is, however, disturbed by the figures of Partabgarh, where the proportion is well over 50 per cent., a fact due not only to a relatively high number of such mortgages, but also to a considerable number of individual mortgages for large sums. Generally speaking, however, the proportion appears to be slightly over 20 per cent.; and this figure has been taken in the case of all districts except a few regarding which definite information is available to show that usufructuary mortgages are specially common. The total amount of such mortgages is then Rs. 145,25,000 or 20 per cent. of the total.

4. These figures, however, are those of a single year only; and at any one time, the total mortgage debt consists of the accumulations of many years. For simple mortgages the maximum period is generally 17 years [see paragraph 152(1)], and the average period can be taken at 12 years. For usufructuary mortgages the period may be as much as 60 years, and the average can be taken at 20 years. Assuming that the proportion of land to other mortgages is reasonably constant, then we can obtain an estimate of the total land mortgage debt of the province by applying to the figures in Table III the proportions resulting from the figures in Table II. Table III can be taken as it stands for simple mortgages, since it relates to a twelve-year period; for usufructuary mortgages, since the period is 20 years, the figures must be increased accordingly. It is on this calculation that we have arrived at our estimate of 70 crores of land mortgage debt, of which simple mortgages account for 44½ crores, and usufructuary for 25½ crores.

5. These estimates rest on a very narrow basis of fact, and the test that can be claimed for them is probability.

6. *II. Agricultural debt.*—We have at our disposal a mass of figures relating to debt. They are derived from different sources.

(a) *Settlement figures.*—These were collected by settlement officers in the course of their economic inquiries during the years 1928 and 1929. But unfortunately, they are available only for parts of some six districts,⁽¹⁾ five of which, moreover, form a compact tract in the Gangetic Plain, so that there is a certain sameness in their figures; whilst the figures themselves, except in one case (Rae Bareli), relate to debtors rather than debt. Consequently, though these settlement statistics are of considerable value in many ways, we have only been able to use those which relate to Rae Bareli in framing our estimates of debt. They are fully discussed in a separate note, prepared by the Chairman, which will be found in the Evidence, volume II, pages 1 to 20.

7. (b) *Witnesses' percentage estimates.*—Many witnesses in answer to one of the questions in Part A of the questionnaire have supplied us with percentages representing their idea of a normal distribution of debt between different objects. There are 71 sets of these percentage estimates (apart from a few that for one reason or another had to be discarded). At first sight these estimates appear to be mere guess work; but inquiries made at oral examination and careful scrutiny of the evidence show that they are more. They are often based on the witness's special knowledge of debt in a particular place. They are sometimes the results of local inquiries; most often perhaps, they represent not the opinion of a single person but the joint opinion of several persons in consultation. They have to be used with caution, but still they can be used. They usually may be taken as representing a normal distribution of debt in a normal year. Some witnesses indeed have given two sets of estimates, one for normal times and one for abnormal.

8. (c) *Statistics collected by witnesses.*—Our village survey reports contain statistics of actual debt, collected by local inquiry: whilst other statistics have been supplied by witnesses, either from materials in their possession (mainly the accounts of district co-operative banks), or as the result of local inquiries which they had themselves made. There are in all 43 sets of such figures, relating to areas as large as a tahsil and as small as a few families, but mostly to single villages. The total amount was Rs. 33,57,000 in round figures (of which some six lakhs represent the Rae Bareli settlement figures mentioned above and another lakh represents figures taken from the Unao rent-rate reports).

(1) Lucknow, Unao, Rae Bareli, Partabgarh, Bara Banki and Budouni.

9. These statistics have only a limited utility. For the most part, they were presented as illustrating the objects on which debt is incurred; and as a basis for estimating the distribution of debt between various objects, they are of great value, though, even for this purpose, they are to some extent vitiated by the fact that they have been taken at different times, and therefore represent different economic conditions. On the other hand, it is not always possible to discover how many individuals, or even how many villages, are concerned in this debt; whilst as chance would have it, they are unevenly distributed over the province. They relate to 22 districts^(*): but nearly 16 lakhs relate to the hill tracts; nearly 8 lakhs relate to five neighbouring Oudh districts: about 4½ lakhs relate to five western districts: the rest to scattered districts in the centre and east of the province.

10. They have been used (1) in conjunction with the witnesses' estimates mentioned above, as a basis for the estimate of distribution of debt according to objects; (2) by themselves, as a basis for the estimate of distribution of debt according to its period.

11. (d) *Statistics collected by the revenue staff.*—It became apparent in December that the figures of debt already available would not suffice as a basis on which to build up an estimate of agricultural debt for the whole province; whilst the information available regarding certain important aspects of agricultural debt were wholly inadequate. These were—(1) the distribution of debt according to caste or social status; (2) the distribution of debt as between landlords and tenants; (3) the distribution of debt as between holdings of different sizes; (4) variations in the burden of debt; (5) the distribution of debt amongst various classes of creditors; and (6) the proportion of indebted to debt-free. We accordingly decided to collect further figures, and at our request Government kindly agreed to lend us the services of the superior revenue staff for the purpose. We accordingly devised certain forms which we sent both to the supervisor quanungos and the inspectors of the co-operative department with instructions to fill them up for three villages in each officer's circle. The work took longer than we expected; many of the returns were not received till April, and even at the present time (May 24th) there are still some returns due. By this method, however, we have collected the statistics relating to 1,389 villages with a population of nearly 675,000; whilst the number of individual cases examined amount to some 54,000. It is on these

(*) Naini Tal, Almora, Garhwal (hills); Bulandshahr, Muttra, Meerut, Aligarh, Mainpuri (west); Rae Bareilly, Unao, Hardoi, Partabgarh, Bara Banki (Oudh); Budaun, Farrukhabad, Etawah, Allahabad, Basti, Gorakhpur, Benares, Ghazipur, Mirzapur.

figures that all our other estimates relating to debt are based. The total figure of debt is over 88 lakhs.

12. *Estimate of distribution of debt according to its objects.*—This estimate was based on a combination of the percentages provided by witnesses (paragraph 7), and the statistics mentioned in paragraph 8. The process of compilation was as follows :—

- (a) The 43 sets of statistics were combined into 22 district totals, and reduced to percentages.
- (b) All percentages were then combined into three main groups—“productive”, “unavoidable”, and “unproductive”. In the first group the principal items were purchase of seed, plough and milch cattle, and manure, labourers’ wages, the building or repair of wells and houses, and the purchase or mortgaging of land. Under the head “unavoidable” were placed borrowings for subsistence and the payment of revenue or rent; and, under the head “unproductive”, all borrowings on account of social or religious functions, litigation or the repayment of old debt. By combining the first and second classes a second classification was obtained into “agricultural” and “non-agricultural” debt, and, by combining the second and third, a third classification into “productive” and “unproductive”. This arrangement also had the effect of smoothing out minor differences.
- (c) The percentages were then arranged in groups by districts and natural divisions, and carefully compared. Those which were markedly different from the rest were discarded altogether. The total number of sets of percentages was 94, of which 71 were witnesses’ estimates and 22 were based on actual statistics; of these eighteen sets were discarded.
- (d) Finally, the percentages were amalgamated. The resultant figures are in Table IV.

13. *Estimates of distribution of debt according to period.*—Most of our witnesses have expressed an opinion regarding the relation of long-term to short-term debt; but their statements are almost invariably vague and inconclusive. And when a witness has provided an estimate both of the distribution of agricultural debt by objects and of its distribution by periods, the two estimates are generally irreconcilable. One of our best informed witnesses, for instance, having given an estimate of the former kind which suggests that 37 per cent. of the debt is long-term and 63 per cent. short-term, follows it up by saying that

90 per cent. of the debt must be regarded as long-term. This witness, when he made the second statement, was undoubtedly thinking not of the period in which debt of a particular kind *ought to be repaid*, but of the period in which it *probably would be repaid*; and, no doubt, the same explanation covers other similar cases. But there is much confusion; and accordingly, whilst discussing the distribution of debt by purposes, we propose to consider only the figures of actual debt already mentioned. Out of the total of nearly 33½ lakhs no less a sum than 29½ lakhs has been distributed in sufficient detail to make a complete and accurate classification possible. For the balance of just over 4 lakhs there is less information, but we have sub-divided it according to the proportions in which the main sum of 29½ lakhs is sub-divided. Figures of this kind, consisting as they do of 43 items derived from 23 districts all over the province, make an adequate basis for discussion.

The figures are given and fully discussed in paragraphs 169 to 175.

14. *Other estimates of agricultural debt.*—All other estimates are based on the statistics collected by the revenue staff. Before these could be used, however, they required certain adjustments.

(a) The figures had been arranged in two ways, (1) according to different types of debtors and (2) according to different types of creditors. The two sets of statistics of course, should have corresponded exactly; in fact, they differed in the case of every single district, and not only in respect of the amount of debt but of the number of debtors; and in the total, the figures arranged according to creditors exceeded those arranged according to debtors by some 20 lakhs. A close examination disclosed the reason. The increase in the number of debtors was due solely to the fact that many of them owed money to two or more creditors, and thus reappeared several times over. A decrease in the amount of debt meant merely that the inquirer had been unable to obtain complete information regarding the classification by creditors and had left a part unclassified. An increase in that amount was almost invariably explicable by the discovery in the registration office of landlord's mortgages secured on the village which had not been mentioned to the investigator during his local inquiries. It was, however, a task of no small difficulty to adjust the figures.

(b) In a few instances the investigators had misunderstood their instructions regarding the record of debt-free cultivators. In three districts they were omitted entirely; in two others they were impossibly low. In all these cases the number of debt-free was estimated on the basis of the figures of neighbouring districts, which in other respects showed similar figures.

15. The figures will be found in Tables V to IX.

Table V shows for tenants and peasant-proprietors the distribution of debt according to four sizes of holdings—namely, (1) less than five acres; (2) between five and ten acres; (3) between ten and twenty acres; (4) twenty acres and over. By peasant-proprietor is meant the small *pattidar* who whilst owning land of his own is also a tenant of some other brother *pattidar*. Their figures have been combined with those of tenants because in all-important economic respects the two are indistinguishable. In each case the figures given are the number of debtors and, the amount of debt.

Table VI shows the correlation between debt and the rent or revenue paid by tenants and peasant-proprietors. These figures afford a fair measure of the burden or incidence of debt. This table shows the following figures : (1) number of debt-free, (2) the number of debtors, and (3) the amount of debt, under the three following groups :—

- (a) where the debt is equivalent to less than one year's rent,
- (b) where the debt is more than the rent of one year and less than the rent of two; and
- (c) where the debt is more than the rent of two years.

These figures are also arranged in such a way as to show the number of persons who can be regarded as unencumbered and encumbered by debt respectively. The unencumbered are those who are debt-free or owe less than one year's rent. The encumbered are those who owe more than one year's rent.

Table VII shows the number of landlords who are debt-free and indebted and their total debt.

Table VIII shows the distribution of debt according to various classes of creditors, namely, village *mahajans*, town moneylenders, landlords, tenants, Government (*tagari*) and co-operative credit societies. There is also a column for unclassified debt.

Table IX shows the total debt both of landlords and tenants arranged in six caste groups as follows :—

- (1) High castes—i.e. Brahman, Rajput, Musalman Rajput, Saiyid, Shaikh, and Pathan.
- (2) Castes of good agriculturists—Ahar, Ahir, Kisan, Kurmi, and Lodha.
- (3) Market gardening castes—Baghban, Kachhi, Koiri, Mali, Murao, and Saini.

(4) Agricultural castes of low social status—Bhar, Chamar, and Pasi.

(5) Non-agricultural castes—Kalwar, Kayastha, Khattri, and Vaish.

(6) Other castes.

This table shows for each district and each caste group the number of persons who are respectively debt-free and indebted, and the amount of debt.

TABLE I.

Classified land mortgages in four districts (figures of value in thousands).

	Saharanpur.		Partabgarh.		Agra.		Bareilly.	
	Num- ber.	Value	Num- ber.	Value.	Num- ber.	Value.	Num- ber.	Value.
		Rs.		Rs.		Rs.		Rs.
Land—								
(a) Without possession ..	897	18,76	515	5,98,	513	5,40	416	5,20,
(b) With possession ..	520	3,41	360	0,03,	200	2,50,	92	1,23,
Houses, shops and other pro- perty—								
(a) Without possession ..	578	4,38,	50	37,	1,328	6,90,	880	4,46,
(b) With possession ..	160	87,	23	6,	157	1,88,	248	80,
Gardens and trees—								
(a) Without possession ..	13	9,	66	10,	16	4,	16	7
(b) With possession ..	2	2,	267	37,	16	2,	6	2,
Jajmani—								
(a) Without possession ..	3	3,	..	..	10	4,	..	..
(b) With possession ..	1	1,	4	1,	40	12,	..	..
Crops—								
(a) Without possession ..	13	9,	..	..	..	..	..	..
(b) With possession ..	6	4,	..	..	..	..	..	..
Cattle—								
(a) Without possession ..	4	1,	..	..	..	..	..	..
(b) With possession ..	..	..	..	..	..	..	..	..
Miscellaneous—								
(a) Without possession ..	8	7,	..	..	117	77,	27	7,
(b) With possession ..	1	10,	..	..	7	44,	..	..
Total ..	2,215	22,55,	1,391	13,85,	2,204	17,70,	1,685	11,96,

TABLE II.

*Estimated distribution of registered mortgages 1928.**(000's omitted.)*

Serial number.	District.	Land.			Other.	Grand total.
		Ordinary.	Usufructuary.	Total.		
		Rs.	Rs.	Rs.	Rs.	Rs.
1	Saharanpur-Dehra Dun	14.60,	3.72,	18.32,	7.12,	25.44,
2 & 3	Meerut-Muzaffarnagar-Aligarh-Bulandshahr-Etah.	68.45,	17.11,	85.56,	46.07,	1,31.63,
4	Agra-Muttra ..	17.60,	5.90,	23.50,	19.81,	42.90,
5	Farrukhabad ..	5.45,	1.40,	6.85,	2.93,	9.78,
6	Mainpuri-Etawah ..	8.06,	2.08,	10.14,	8.37,	18.49,
7	Bareilly ..	6.51,	1.90,	8.41,	7.03,	15.44,
8	Pilibhit ..	2.82,	60,	2.92,	52,	3.44,
9	Moradabad-Bijnor ..	17.23,	4.30,	21.53,	14.35,	35.88,
10	Budaun ..	4.21,	1.05,	5.26,	2.83,	8.09,
11	Shahjahanpur ..	3.12,	77,	3.89,	2.10,	5.99,
12	Cawnpore-Fatehpur ..	13.76,	3.44,	17.20,	14.08,	31.28,
13	Banda-Hamirpur ..	2.25,	56,	2.81,	1.87,	4.68,
14	Allahabad ..	5.40,	1.40,	6.80,	6.77,	13.57,
15	Jhansi-Jalaun ..	3.07,	77,	3.84,	3.84,	7.68,
16	Benares ..	8.02,	2.00,	10.02,	13.77,	23.79,
17	Mirzapur ..	9.71,	3.00,	12.71,	4.24,	16.95,
18	Jaunpur ..	18.20,	5.00,	23.20,	7.75,	30.95,
19	Ghazipur-Ballia ..	23.12,	13.00,	36.12,	4.52,	40.64,
20	Gorakhpur-Basti ..	27.00,	31.01,	58.01,	5.74,	63.75,
21	Assamgarh ..	8.71,	2.80,	11.51,	1.00,	12.51,
22	Naini Tal ..	2.00,	94,	2.94,	1.04,	3.98,
23	Almora ..	2.00,	80,	2.80,	80,	3.19,
24	Garhwal ..	66,	20,	86,	10,	96,
25	Lucknow-Unao-Bara Banki.	30.04,	7.50,	37.54,	12.50,	50.04,
26	Hardoi ..	18.20,	3.40,	21.60,	4.17,	25.77,
27	Sitapur-Khori ..	23.52,	5.53,	29.05,	4.51,	33.56,
28	Gonda-Bahraich ..	14.18,	6.00,	20.18,	2.24,	22.42,
29	Fyzabad-Sultanpur ..	24.13,	8.02,	32.15,	4.88,	37.03,
30	Rae Bareilly-Partabgarh	9.65,	11.00,	20.65,	1.80,	22.45,
	Total ..	3,30.81,	1,45.25,	5,25.56,	2,00.95,	7,26.51,

TABLE III.

Number and value of mortgage deeds relating to immovable property registered during the twelve years 1917 to 1928.

Serial number.	Year.			Total number of mortgages registered during the year.	Aggregate value (or mortgage money)	Remarks.
					Rs.	
1	1917	..	..	102,813	5,61,61,139	
2	1918	..	..	96,742	5,84,81,049	
3	1919	..	..	135,796	7,60,53,718	
4	1920	..	..	109,284	6,70,27,882	
5	1921	..	..	113,720	7,02,13,672	
6	1922	..	..	103,910	7,60,61,823	
7	1923	..	..	102,855	7,20,95,432	
8	1924	..	..	98,046	7,78,06,880	
9	1925	..	..	1,08,386	7,67,06,004	
10	1926	..	..	108,574	7,82,75,913	
11	1927	..	..	97,332	7,25,27,522	
12	1928	..	..	103,088	7,26,61,696	
	Total			1,273,046	55,01,03,324	
	Average of twelve years			106,087	7,08,41,985	

TABLE IV.—AGRICULTURAL.
Percentage of debt according to objects.

Name of district.	Pro- ductive.	Un- avoid- able.	Un- pro- duc- tive.	Agri- cul- tural.	Non- agri- cul- tural	Pro- ductive.	Un- pro- duc- tive.
Naini Tal and Almora ..	37	10	53	47	53	37	63
Garhwal ..	21	11	68	33	67	21	79
HIMALAYA, WEST ..	27	11	62	38	62	27	73
Tarai and Bhabar ..	38	22	40	50	40	38	62
Bijnor ..	51	16	30	70	30	51	46
Pilibhit ..	43	23	28	72	28	43	54
Kheri ..	49	35	16	84	16	49	51
SUB-HIMALAYA, WEST ..	47	27	26	74	26	47	53
Muzaffarnagar ..	21	55	24	76	24	21	79
Meerut ..	53	24	28	77	23	53	47
Bulandshahr ..	24	48	25	72	28	24	76
Aligarh ..	48	28	24	76	24	48	52
Muttra ..	46	34	20	80	20	46	54
Mainpuri ..	38	34	28	72	28	38	62
Etah ..	41	31	25	75	25	41	59
Budaun ..	24	42	34	66	34	24	76
Farrukhabad ..	21	23	53	44	56	21	79
Etawah ..	28	27	15	85	15	28	42
INDO-GANGETIC PLAIN, WEST ..	36	34	28	72	28	36	64
Cawnpore ..	25	50	25	75	25	25	75
Fatehpur ..	24	59	17	83	17	24	76
Allahabad ..	18	32	50	50	50	18	82
Lucknow ..	33	38	29	71	29	33	67
Unao ..	50	15	35	65	35	50	50
Rae Bareilly ..	25	31	44	55	44	25	75
Sitapur ..	21	59	25	74	26	21	79
Hardoi ..	31	39	30	61	39	31	69
Fyzabad ..	20	37	38	62	38	20	80
Sultanpur ..	24	40	36	64	36	24	76
Bara Banki ..	14	50	36	64	36	14	86
INDO-GANGETIC PLAIN, CENTRAL ..	24	40	36	64	36	24	76
Jalaun ..	49	34	17	83	17	49	51
Hamirpur ..	36	22	42	58	42	36	64
Banda ..	39	31	30	70	30	39	61
CENTRAL INDIA PLATEAU ..	41	29	30	70	30	41	59
Mirzapur ..	17	27	56	44	56	17	83
EAST SATPURAS ..	17	27	56	44	56	17	83
Gorakhpur ..	24	44	32	68	32	24	76
Raei ..	25	23	47	53	47	25	75
Gonda ..	29	38	35	65	35	29	71
SUB-HIMALAYA, EAST ..	27	38	40	60	40	27	73
Benares ..	26	10	64	36	64	26	74
Ghazipur ..	28	21	56	44	56	28	72
INDO-GANGETIC PLAIN, EAST ..	21	21	58	42	58	21	79
Co-operative societies' figures.							
Ghazipur ..	53	22	25	75	25	53	47
Kheri ..	38	50	12	88	12	38	62
Mirzapur ..	51	26	23	77	23	51	49
Gorakhpur ..	62	25	13	87	13	62	38
Mainpuri ..	32	61	7	93	7	32	68
Total, Co-operative figures	47	37	16	84	16	47	53
Total, United Provinces	30	34	36	64	36	30	70

APPENDIX II.

Method of estimating the total volume of debt.

1. The statistics which we have used as a basis for estimating the total debt of the province consist of : (a) The total figures of tenants and peasant-proprietors' debt as collected by the revenue staff; (b) a certain part of similar debt statistics collected in the course of our surveys or provided by our witnesses to the extent of Rs. 24,81,140 affecting 23,825 persons; (c) the statistics of landlords' debt as collected by the revenue staff excluding that part of it which we estimate to be mortgaged debt (see paragraph 198); (d) mortgage debt as separately estimated on the basis of the Registration department's figures. In our calculations we have for convenience' sake kept these three figures entirely separate.

2. The debt which we are considering is that of landlords, peasant-proprietors and tenants. These three classes can be taken as equivalent between them to the two census occupations described as—(1) income from rent of agricultural land and (2) ordinary cultivation.⁽¹⁾ The former term represents "the rent receiver" i.e., the landholder, who derives the greater part of his income from the rent of his land; the latter term represents those cultivators who, whether they let (or sublet) any part of their land or not, at all events derive the major part of their income from their own cultivation. Roughly, the former occupation covers the bigger landlords; the second the tenant and the peasant-proprietor. The total figures (rounded) as at the last census are :—

(1) income fr. m rent of agricultural land	..	..	812,000
(2) ordinary cultivation	..	..	28,693,000

Census Table I. column 11, gives the total rural population, which amounts to 40,570,000. The difference between this figure and the sum of the two former figures represents roughly that part of the rural population which cultivates no land of its own.

3. The first step in framing our estimate, therefore, was to ascertain the percentage of the total rural population which is non-agriculturist; to apply that proportion to the population, on the debt of which our figures were based (675,000 round); and to deduct the result from that figure :—thus giving us a population which corresponded to the total of the two agricultural occupations mentioned above.

(1) Census Table XVII, clause (a), sub-clause (1), Order I, subdivisions 1 and 2.

4. These figures, however, include not merely landlords, tenants and peasant-proprietors, but also their dependants. The next step, therefore, was to adjust the figures so as to ascertain how many of the persons included under these two heads were potential debtors. In the case of the entry "income from rent of agricultural land", no more was necessary than to take the census figures for "actual workers" under this head, since every "actual worker" is actually a landlord, and therefore a potential debtor.

In the case of the figures under the head "ordinary cultivation", however, the calculation was more difficult. "Actual workers" in this case include not only tenants and peasant-proprietors, but also those of their families who actually assist them in their cultivation. The only potential debtors, however, are the tenants and peasant-proprietors themselves, and accordingly only a part of those recorded as actual workers are potential debtors.

5. To allow for these facts we have made the following adjustments :—

(a) The proportion of workers under the head "income from agricultural land" to the total under that head was first ascertained and applied to the number of landlords actually recorded in our statistics. The resultant figure was subtracted from the agricultural population already ascertained, thus leaving a total figure representing tenants and peasant-proprietors.

(b) The number of actual tenants and peasant-proprietors in our statistics was then divided into the total population of such cultivators, which gave the proportion of potential debtors to the rest.

(c) The total figure of cultivators as given in Census Table XVII was then divided by that figure, the result being the total number of potential debtors in the area concerned.

6. The next step was to ascertain the debt per head according to our statistics. And to multiply the figure just mentioned, namely the total figures of potential debtors, by the ascertained debt per head. In the case of landlords, all that was necessary was to multiply the total number of actual workers under the head "income from rent of agricultural land" by the average debt per landlord, as ascertained by our statistics.

7. For tenants and peasant-proprietors it was necessary to make the calculation separately for the seven natural divisions which lie in

the plains; and in the eighth or hill natural division, for the following tracts separately :—

Dehra Dun;

Kumaun division, hill tracts.

Kumaun-division, Tarai and Bhabar.

For landlords it sufficed to make a single calculation for the whole province. The figures for these various areas are as follows :—

<i>Description of debt and area.</i>				<i>Estimated debt. Rs.</i>
Tenants and peasant proprietors, Dehra Dun	..	..	..	30,83,000
Kumaun division, hill tracts	..	..	..	62,83,000
Kumaun division, Tarai and Bhabar	..	..	..	62,78,000
Total, Himalaya, West				1,14,44,000
Sub-Himalaya, West	..	..	..	1,57,80,000
Indo-Gangetic Plain, West	..	..	..	11,33,75,000
Indo-Gangetic Plain, Central	..	..	..	5,11,91,000
Central India Plateau	..	..	..	1,77,09,000
East Satpuras	..	..	..	87,83,000
Sub-Himalaya, East	..	..	..	2,71,58,000
Indo-Gangetic Plain, East	..	..	..	7,15,54,000
Total, Tenants and peasant proprietors				31,09,84,000
Landlords (excluding mortgage debt)	..	..	..	19,30,60,000
Mortgage debt	..	..	..	70,60,00,000
GRAND TOTAL				1,20,90,54,000

8. To this sum, however, we made the following additions :—

- (1) The total number of farm servants and field labourers is just under 4 millions, representing some 867,000 families. Some of these are undoubtedly debt-free. The others probably owe on an average one *qist* apiece. We estimate for the debt of these agriculturists 75 lakhs.
- (2) There is a considerable amount of unregistered usufructuary mortgages both of the ordinary type and of the type of subleases. The number of such mortgages is probably considerable, but the sum must always be under Rs. 100. We estimate on this account 25 lakhs, amounting to one per cent. of the registered usufructuary mortgages.
- (3) To allow for possible understatement of debt, we have allowed for a margin of 5 per cent. on the two items, tenants and peasant-proprietors' debt, and landlords' debt other than land mortgage debt—a figure amounting to Rs. 2,51,54,000. The total thus becomes Rs. 1,23,82,08,000 or in round figures 124 crores.

CHAPTER V.

AGRICULTURAL MARKETING.

244. *Isolation of the cultivator.*—In this province, as in all agricultural countries with defective communications, the marketing of agricultural produce is a difficult problem. The peasant lives in rural isolation, cut off from the town where alone he can sell his wares, an isolation which the development of transport facilities could only mitigate because it is inherent in the occupation of agriculture. That isolation has brought into existence a horde of itinerant dealers (*beoparis*), carriers and intermediaries to serve as a connecting link between the peasant and his market, and to intercept a portion of his rightful profits. In this business the *mahajan* has his share; he is often himself one of these intermediaries, and whilst supplying credit for production, has his eye upon the product. In other parts of the country, such as some districts of Eastern Bengal, the moneylender's power is limited, because a constant succession of crops enables the cultivator to repay him quickly. But in this province, with only two crops and an uncertain rainfall, moneylenders are powerful, *beoparis* are numerous; and between them they are able to regulate the marketing of agriculture in a manner which secures to them a considerable share of the peasant's legitimate profits.

245. *Bad communications.*—One cause of the multiplicity of itinerant grain-dealers and carriers in the province is its unsatisfactory communications, both from the fields to the village and from the village to the *mandi*. Metalled roads, whether provincial or local, are for the most part sufficiently good, and Government are spending large sums on reconstructing those of them that carry heavy traffic. But the unmetalled road is always in bad repair: whilst the village lanes are narrow, tortuous, often cut up by ravines and often impassable; transport is slow and costly, and imposes such a severe strain on the villager's bullocks, that he is compelled to depend principally on the *beopari*, who alone possesses means of transport and animal power sufficient to undertake the movement of produce.

246. At the present day agricultural produce is usually transported from villages to the village market (*painth*) or market town (*mandi*) in bullock and camel carts, on pack animals such as camels, ponies, buffaloes and donkeys, or in head-loads. There was formerly a brisk river traffic, especially along the Ganges, Jumna and Ghagra, but it has greatly declined in importance. In the hill districts pack-animals and

head-loads are more common than elsewhere. Motor transport has considerably increased in recent years, and in some districts the lorry and motor-bus has come to stay; but at present they carry for the most part only passengers and perishable goods, such as fruit and vegetables. Bad roads and lack of mechanics, as well as the seasonal nature of the traffic, will hinder the development of motor transport in the rural areas.

247. *Types of itinerant middlemen.*—The Banjaras⁽¹⁾ are well known in many parts of the province, nomadic middlemen, who collect grain in the villages. Elsewhere they are powerful moneylenders; for instance, in the Tarai and Bhabar, where by keeping the Tharu and Bhoksa agriculturist permanently in their debt they are able to secure their rice crops at a favourable rate against their advances. In most parts of the province, the *beoparis* are *larhiwans* with their carts or *banias* with their pack bullocks, ponies or buffaloes, who wander from village to village at the harvest season, and buy up grain. In some parts, such as Gonda and Bahraich districts, the *larhiwans* operate with their own capital; in the hills the business is in the hands of *ponywalas* who are sometimes financed by grain merchants. Sometimes the village potter disposes of the cultivator's produce, which he brings to the *mandi* on his donkey; he is said to be skilful in deceiving the cultivator by false weighment.

248. *The village taula.*—The village *taula* or weighman usually measures the grain. Occasionally he brings samples weighing a *chhattak* or so to the nearest *mandi*, and after obtaining orders, returns to the cultivators, takes over the produce, and delivers it to the *arhatia*. The weighman gets his dues from the cultivator. Sometimes the *taula* is eliminated, and the cultivator himself takes his samples to the market.

249. *Periodical markets.*—Well-to-do cultivators often send their produce in their own carts either to the *mandi* or the periodical market (*painth*). Such markets are held once or twice a week in important localities. It has been estimated that in a Basti village cartmen carry

(¹)The Banjaras are a tribe whose business it is to be carriers of grain. They are mentioned by Badaoni. "They traverse the country conveying the grain, often from the greatest distances, in large bodies which resemble the march of an army. They encamp with regularity, never lodging in houses; are strongly armed; and ready to fight no contemptible battle in their defence. The practice comes down from a remote antiquity; and marks that unsettled and barbarous state of society when merchants are obliged to depend upon themselves for the means of their defence."

The experienced utility of their services has procured them considerable privileges. They are regarded as neutral in all ways; they enjoy a right of transit through all countries and the armies which spare nothing else, act under a special obligation, seldom violated, of respecting the property of the Banjaras."

(Mill and Wilson, *History of British India*, V, p. 306. Lowe—*Muntakhabat Tawarikh*, p. 240, note.)

75 per cent. of the produce to the market, whilst village *banias* and *beoparis* carry 25 per cent. The *beopari*, however, plays a more important part in the marketing of valuable crops like linseed, mustard, wheat or sugarcane. While the cartman's operations are confined mainly to roadside villages, the *beopari* goes everywhere, and either pays in cash or takes over the produce on credit. The *beopari* in his turn sells to the *arhatia* who forms the next link in the chain of marketing agencies. Occasionally too, the agents of large exporting firms visit the bigger markets and landlords collecting wheat, barley and oilseeds. *Sann* (hemp) is purchased by an English firm through *beoparis* in Partabgarh district, which carries on its export business on the spot from October to January.

250. *Difference between organised and unorganised markets.*—There is a regular routine in agriculture; the cheaper food grains are grown in the *kharif*, the money crops in the *rabi*. But where circumstances are favourable, where irrigation is adequate, where soils are specially fertile, or agriculturists specially skilful, there is a tendency to abandon routine and to grow more of the remunerative crops, such as sugarcane, cotton or wheat. And marketing matches production. In a tract of routine agriculture, where the quantity of marketable crops is small and their quality poor, the trade is in the hands of small men and concentrated in village markets or small *mandis*. But in a tract, such as the western districts, where there is a large production of the valuable crops, the traders are wealthy, and the markets, though few, are important and well organised, especially if communications are also good. It is in these bigger *mandis* that the wholesale *arhatia* is found; the financier who, by lending capital to the *beoparis*, makes sure that the produce of the neighbourhood should reach him regularly at harvest time, the commission agent of the wholesale merchant and the mill, and the most important link in the chain of middlemen which unites the cultivator and the exporter. The *arhatia* is also found in the smaller *mandi* or even in the *painth*, but there he is a mere collecting agent, who passes on the produce to the big *arhatia* in the larger *mandi*, who often finances him.

251. *Hypothecation and disposal of crops to moneylenders.*—(a) *The khandsali system.*—In tracts which grow valuable crops the village *mahajan* often uses his influence over a debtor to secure a lien on his produce. For instance, the cane-growing areas of this province have brought into existence a distinctive type of *mahajan* called the *khandsali*; who advances loans many months before the sugarcane crop is ripe on the stipulation that the sugarcane juice will be sold at a forward rate, which rate is usually very much lower than the prevailing

market rate at the time when the crop ripens. The cost of crushing is borne by the cultivator, who also pays the *mahajan* rent for the machine which he supplies. This advantage covers the loss which the *khandsali* suffers by charging no interest on the loan. The following is a typical example from Bareilly district. The *khandsali* advanced in July, August and early September about half the yield of sugarcane valued, the balance being given at the time of crushing. The cultivator by a forward contract accepted a rate of Rs. 20 to Rs. 25 per 100 maunds of juice. As the proportion of juice to cane is 11 to 20, this works out, roughly, to $2\frac{1}{2}$ annas per maund of cane. Sometimes the *khandsali* offers a higher rate of Rs. 40 to Rs. 50 per 100 maunds of juice, but in this case he charges interest at the rate of 24 to 36 per cent. on the advance, which counterbalances the better price. If the cultivators had sold it at the harvest rate they would have obtained nearly 8 annas per maund (of juice).

(b) *Cotton*.—The *mahajan* often secures a cotton crop by forward agreement at a low price. The following is an instance from Cawnpore district. A *mahajan* purchased 100 maunds of raw cotton for Rs. 8 per maund. He sold the raw cotton in one of the larger markets for Rs. 9 a maund, making a profit of Rs. 100 on expenditure of Rs. 800; his charges for cartage, handling and market dues would be some Rs. 15, so that his net profit was Rs. 85 or 10·7 per cent. The cultivator received, net, approximately fourteen annas per maund less than if he had marketed his crop himself.

(c) *Flowers*.—The perfume dealers of Kanauj, Delhi or Ahmadabad make advances to farmers, who stipulate to supply roses produced in the next season at a price settled when the contract is made. The perfume manufacturers of Jaunpur also advance money to rose growers in Ghazipur on similar conditions at nominal interest.

(d) *Ghee*.—A similar system of advances is prevalent in many districts for the marketing of *ghee*. The *arhatias* lend money to the village *ghee* dealers, who in their turn advance small amounts to cultivators. The latter undertake to supply to the dealers a fixed amount of *ghee* during the season. The price paid for *ghee* in advance is usually based on 25 to 30 per cent. below the current market rate, and is often based on a seer of 80 to 120 *tolas*. In Etawah the cultivator also agrees to a penalty clause in case he fails to supply the stipulated amount of *ghee*; the value of the balance at the current market rate plus 25 per cent. is deducted from the amount paid to him at the beginning of the next season. The village *ghee* dealer thus collects *ghee* from the countryside and sells it to his *arhatia*, who disposes of

it to the merchant at a price which is settled by bargaining. At Etawah the price settled is usually based on the price prevailing at the time in Calcutta; but whereas the Calcutta maund is one of 40 seers, the Etawah is one of 50 seers. Several market dues have to be paid by the village dealer, while certain deductions are also made for adulteration or for *mattha* (curds).

252. *Open prices.*—When the cane, cotton or hemp grower is advanced money against the valuation of a crop before it is harvested he has little incentive to maintain or improve its quality, which suffers accordingly. It is not, however, true that the *mahajan* or *beopari* can always get the cultivator into his grip or that he abuses his advantage. The cultivators are shrewd enough to ascertain the *mandi* prices and to calculate their transport and other charges; and the solvent among them often dispose of their produce not to the *beopari*, but directly at the *mandi*. In an organised market like that at Hapur cultivators from distant villages assemble in the morning at the shop of a *kachcha arhatia* together with *pakka arhatias* or their brokers. The bargain is the result of competition; the *karda* (allowance for waste due to dirt and adulteration) is settled by the *kachcha arhatia*. The *palladari* (portage) and weighing charges, doles for charity, etc., are paid by the cultivator. Even after deducting these charges the cultivator, when he markets his produce himself, obtains a good price for it.

253. *The rôle of the beopari.*—Of all the parties to a transaction in grain, whether it takes place in the rural or in the urban market, the most important is the village *bania* or *beopari*; and his importance increases with the distance between village and market. The *beopari* takes upon himself all trade risks, while his margin of profit, especially in the face of competition, is always small, sometimes little more than enough to cover the expenses of transport and marketing. His profits depend mostly upon fluctuations of prices and upon certain economies which the cultivator dealing in small quantities cannot secure. By the intervention of the *beopari* the cultivator avoids all trouble and risks, mostly resulting from his own ignorance, and incur expenditure that handles large supplies, and by experience has learnt when to store and when to sell. The *beopari* is often himself a cultivator, rich enough to take risks which an ordinary cultivator cannot; for if a small cultivator were to market his produce himself he would run many risks, mostly resulting from his own ignorance, and incur expenditure that he cannot afford for transport, lodging and food. In short, in the present unorganised system of credit and marketing the itinerant *beopari* is a necessity.

254. *Difference of prices between the large mandi and the country mandi.*—But the *beopari*, partly perhaps because he is indispensable, is apt to exploit the ignorance and helplessness of the peasant, like his compeer, the village *mahajan*, by manipulating prices; and as the number of buyers in the country market is limited, the village seller is often unable to obtain a fair price in the small *mandi*. In Rohilkhand wheat sells in the large *mandis* at 8 seers per rupee; but the cultivator who brings his grain to the village market gets 9 seers per rupee, a loss of 9 annas a maund. In the village markets of Benares district hemp sells at Rs. 5 per maund; in the city market after payment of cartage and market dues at 12 annas a maund, it sells at Rs. 7, a difference of Rs. 1-4-0 a maund.⁽²⁾ In the district of Lucknow the *bania* has ordinarily a margin of at least 12 per cent. owing to the difference in rates. The usual difference between the village and the city market rates in the case of valuable grains is one seer. in the case of coarser grains it is 2 seers, per rupee. Accurate data relating to this difference in rates are not available for all parts of the province; but it is evident that the difference is large and, as it cannot be accounted for by transport and other necessary charges, must be due to inefficient marketing arrangements.

255. *The rôle of the kachcha and the pakka arhatia.*—As the *beopari* links the village with the small *mandi*, so the *kachcha arhatia* is the link between the small *mandi* and the big organised market. The distinction between the *kachcha arhatia* and *pakka arhatia* which is found in some big markets is of great importance. The *kachcha arhatia* acts as a commission agent for all sellers in the countryside, including cultivators, village *banias*, *beoparis* and other itinerant carriers. The *pakka* or wholesale *arhatia* does not deal directly with the sellers, but buys through the *kachcha arhatia*. It is to him, rather than to the *kachcha arhatia*, that the exporting firm or grain merchant send their agents. The volume of his business yields him so large a profit, that the loss which he incurs by buying through the *kachcha arhatia* scarcely affects him. The *pakka arhatias* at such a market as Hapur are in close touch with the foreign markets through their head offices at the ports; and thus the movement of world prices govern the Hapur prices, which in their turn govern the prices of the small market and the village. But the *arhatia's* sales are not only to the export and wholesale trade, but to the retail trade too. He is the primary distributor of agricultural produce, and so stands at the apex of the structure of Indian marketing, with the *kachcha arhatia* and the dealer in the small *mandi* in the middle and the village *bania*, *beopari* and cartman at its base.

(²) Mr. G. Clarke's evidence before the Royal Agricultural Commission, Vol. VII, p. 22.

256. *Marketing finance*.—Marketing finance begins when the produce is ready on the threshing floor, or even earlier, if the cultivator has received an advance on the understanding that he will sell his produce to the creditor. The money for this initial advance, or for the purchase price, is provided by the *beopari* or *kachcha arhatia*. Neither of these nor the cultivator himself is able to hold the produce for a rise in price and must bring it as early as possible to market. Whether it is the cultivator himself, or the *beopari*, or the cartman who brings the commodities, whether they are sold directly or through the *kachcha arhatia*, they are ultimately bought by the *pakka arhatia*, and it is he who has to provide the money for the purchase. If he has already advanced money to the *beopari* to enable him to purchase in the village he simply makes an entry in his book, credits him with the value of the goods, and so decreases his loan. Thus it is on him that is thrown the burden of providing marketing finance as soon as the crops are harvested, or, at all events, the greater part of that burden.

257. The *arhatia's* personal capital is seldom large enough to meet all the requirements of his business, and he must himself borrow to increase his resources. He usually wants financial facilities in three forms: (a) For general business purposes, to advance to the *beopari*, or for storage and movement of goods, etc.; (b) against storage, to pay for the produce and hold it till it is sold, or till the client on whose behalf he is holding it has paid for it in full; (c) for the movement of produce from his *mandi* to the port town, mill yard or other place where it is required. The following are the methods in which he obtains money for these objects.

258. (a) *For general business purposes*.—The *arhatia* makes arrangements with his *sarraf* or bank to give him the necessary accommodation, the amount and nature of which will naturally depend upon his relations with his banker, his past dealings, his financial position and the volume of his business. The advance may form the subject of a demand promote, a running account or a *muddati hundi*. The lender may simply rely on his signature or ask for a second signature. If the advance is in the form of a *muddati hundi*, the payee, i.e., the *sarraf* who makes the advance, may in turn endorse the *hundi* to a commercial bank to be discounted, and so recoup his resources. If the banker's office is situated in the same place as that of the *arhatia* the transaction is simple; he obtains money from, and repays at the banker's office. But if the lender and borrower live in different places, the funds can be transferred in one of two ways:—

(i) The lender sends a *hundi* or another instrument payable at the place where the borrower resides. The *hundi* is usually

darshani, but it may be a matured *muddati hundi*, drawn by some trader in that place, and now due for payment.

- (ii) The borrower draws a *darshani hundi* upon his financier and sells it in the local market.

The reverse operation follows when the payment is due.

The *arhatia* often has standing instructions from his more important clients to draw money from them whenever there is a chance for favourable business. Sometimes, too, he has an arrangement with his correspondents or agents in other big centres or port towns, by which they take loans at the beginning of the season which are later liquidated by the despatch of goods.

(b) *For storage*.—This is a much more common form of advance. The *arhatia* pledges his goods to his financier. He has produce stored in godowns, *kothas* or *khattis*, and he transfers the possession of the godown to the lender. If his financier is an indigenous banker he simply contents himself with the key of the godown; but if he is dealing with a commercial bank, the bank puts on its own lock and signboard. This gives notice to the whole market that the godown is hypothecated to the bank. Such a notice has the effect of reducing, *pro tanto*, his credit; and some of the bigger *arhatias* regard it as derogatory, and will not take advantage of the financial accommodation which storage can procure. The banks generally advance 75 per cent. of the value of goods, but the *sarraf* is satisfied, as a rule, with a smaller margin and in some cases may even forgo it. We have dealt with rates of interest elsewhere. They have fallen of late and are now reasonable.

The *arhatia* often stores goods on account of his client. He usually asks for a small margin, less than that required by his banker, and in special cases may even dispense with it. On the other hand, a client whose means are substantial may pay the *arhatia* the full value of the goods to save himself from interest charges. As it is not always possible for a banker to be present when goods are being stored, he cannot be certain that the goods are as represented, and that there is not a layer of inferior goods or even rubbish at the bottom. Accordingly the lender, when making an advance, does not rely solely on the security, but has regard to the borrower's reputation for integrity. It may be incidentally mentioned that the *kotha* or *khatti* may be sold several times before it is finally emptied and its contents sold for consumption or export. For the quantity and quality of contents the intermediate purchasers rely upon the *beejak* (invoice) of the person who first filled the *kotha* or *khatti*, which invoice passes from every seller to every purchaser. It is extremely rare that the *beejak* is fraudulently prepared, but if on opening

the store a discrepancy is discovered between the actual weight or quality and that described in the *beejak*, the original or first seller is responsible for making good the difference. The *beejak*, however, is not an instrument of ownership, but only evidence of weight and quality.

(c) *Movements of goods*.—When the *arhatia* sells his goods locally he receives the value locally. Usually he has to wait for payment for a certain time after delivery, which time depends upon the custom of the *mandi*. But if the goods have to be railed abroad he will either receive payment direct from the purchaser or, more commonly, he will draw on the purchaser for the funds. The sale price may either be absolute or dependent on the quality. In the former case he may draw up to the full value, but in the latter case he is generally allowed to draw only up to 90 per cent. of the price, when the balance is adjusted on the basis of quality after the goods have been examined by the purchaser at destination. If he is simply consigning goods to his agent for sale on his account, his agent will advance him up to 75 or 80 per cent. of the market price, and the account is finally settled after the goods have been sold.

Funds are drawn by means of a *darshani hundi*: the seller or agent at destination pays the amount of the *hundi* to its payee or holder. Such *hundi* may be either supported by a railway receipt or be clean. In the latter case the railway receipt is sent directly to the consignee and is made out in his name; in the former case the consignor and consignee are the same, so that he may be competent to endorse the receipt to the banker to whom he offers the documents for purchase.

The banks generally prefer that *hundis* should be supported by receipts, since their risk is thereby reduced. The limit for the purchase of clean *hundis* is considerable only in the case of respectable clients. Some consignees, however, insist on receipts being sent direct to them, either as a matter of prestige, or because they themselves have to take an advance on the goods before they can pay the *hundi*. The banks will rarely assist the smaller *arhatias* in such a case, who must then sell their *darshani hundis* to a *sahukar* or *sarraf*.

We have so far considered only cash sales. Sometimes, an *arhatia* sells on credit, at a period fixed by mutual arrangement. Contrary to the practice of some western countries, such accommodation is rarely in the form of usance bills, but of book debits. If a *hundi* is passed on by the purchaser in favour of the seller the latter can endorse it to his financier, and get accommodation in case of need.

259. Improvements in marketing finance.—This description makes clear the deficiencies which exist in the present system of marketing finance. We make the following suggestions:—

- (a) The cultivator's power of holding up stocks should be increased; this is possible if the co-operative credit societies undertake marketing finance. The cultivator will then be able to get practically the full market price on the security of his produce, without actually selling it. And because the whole of the crop will not be marketed at the same time and sale will keep pace with demand, the return to the agriculturists will be increased.
- (b) *Storage.*—We show later how storage could be reformed so as to create negotiable instruments of ownership.
- (c) *Trade bills.*—If merchants introduce trade *muddati hundis*, instead of the present book credits they will create negotiable instruments of an acceptable kind, which can be used as, and expand the basis of, credit.
- (d) *Railway receipts and darshani hundis.*—If the practice of supporting *darshani hundis* with railway receipts be extended it will be easier to sell them in the market and to banks.

260. Dealings in futures.—The agriculturist in an outlying area suffers a great deal from the fluctuation of market prices; and in all agricultural countries, we find, besides the distributors, a class of traders who specialize in undertaking commercial risks and whose transactions are in accord with the seasonal and world movement of prices. Their business tends to make daily market prices correspond to the movements in supply and demand as they vary from season to season. In our province this function is chiefly in the hands of the *pakka arhatias*, through transactions known as *badni ka satta*.^(*) At Hapur, Ghaziabad, Meerut, Muzaffarnagar, Deoband, Shamli, Secunderabad, Dankaur, Hathras, and Agra large dealings in futures take place; each market speculates chiefly in its own special product,—wheat in the marts in Meerut district, wheat, cotton, barley and *bajra* in Hathras, and cotton, cotton seeds, gram and *bajra* in Agra. Such transactions take place in terms of *khattis*, sacks, maunds or (in the case of cotton), *khandis*. Most of these transactions are settled in terms of differences, i.e., the amount by which the value of the commodity rises or falls; not merely is there no actual delivery of goods, but a very small sum may serve as cover for a large transaction. There are different conventions in different markets relating to the time and methods of settlement charges, and the proportion of the cover to the amount of the transactions. The Chambers of Commerce established in many of these markets are now

(*) *Badni*=contract for future sale (of grain). *Satta*=transaction.

endeavouring to regularise these conventions in the form of rules and bye-laws. There are, however, many merchants who have not yet been enrolled as members, and many transactions take place outside the Chambers' jurisdiction. Members, as well as non-members, often indulge in unauthorised transactions such as *teji ka satta* (put option), *mandi ka satta* (call option), and *nazrana* (double option). And their effects upon prices are very different from those produced by the expert speculator who deals in futures after a due consideration of present stocks, of the tendencies of demand and seasonal supply, and of the tone of the outside markets.

261. *Dumping*.—There is some evidence to show that exporting firms are occasionally guilty of dumping agricultural produce to facilitate purchase at lower prices. Thus in Rae Bareilly, "the charge levelled against the leading exporting firm is that it shatters prices with a travelling load of 10,000 maunds of grain, which is dumped in the area in which prices are steady to lower them *ad lib*, and then, after effecting purchases, the prices are forced up again. The well-known evils of cornering and dumping are practised in a novel form."

262. *Practical defects of marketing*.—There are other defects in the marketing system which can only be cured by legislation or administrative regulation. These are :—

- (a) the use of a variety of local weights or measures;
- (b) false weighment;
- (c) the levy of a variety of incidental charges and imposts;
- (d) the absence of grading;
- (e) the secret settlement of prices.

263. (a) *Variety of local weights and measures*.—The confusing variety of weights and measures in India has often attracted the attention of the Government. The Weights and Measures Committee recommended standardisation in 1913-14, but its recommendations have so far been ignored. Recently the Royal Agricultural Commission have dealt with this matter. They realised that local trade custom and tradition were serious obstacles to all-India legislation, and recommended that the Government of India should again undertake an investigation of the subject and lay down general principles to which the provincial governments should adhere, so far as this is possible without undue interference with local trade customs.

264. We strongly recommend that the United Provinces Government should institute an inquiry to ascertain what weights and measures are used in different parts of the province for all kinds of grain transactions and payment in kind, with a view to introducing standard weights and measures. In many areas the weight used for rural transactions is different from that used in the *mandi*; and it is always the cultivator

who suffers. Thus in Muttra district, for instance, the village maund is 45 seers, and though it is converted into standard measure there is always room for discrepancy. There is already a tendency for approximation of local to standard measures, and any action taken by the government will accelerate the change.

265. (b) *Incidental charges*.—In most markets there is a large variety of incidental marketing charges. It is only in the bigger *mandis* that the *arhatias* levy uniform charges from cultivators, and even here these differ from the charges which the *beoparis* have to pay; for the *beoparis* are frequent visitors to the *mandi*, and the *arhatia* is anxious to secure their custom. Further, the charges for various items differ in different *arhats*; and cultivators and *beoparis*, when they are confronted on their way to the *mandi* by the agents of the *arhatias*, can never be certain whose total charges will be the smallest. We have some interesting evidence as regards these charges both in organised and country markets. We here give a comparison of the charges in the *mandis* at Hapur, Ghaziabad, Hathras and Agra on the one hand, and a country market in Partabgarh district on the other:—

Items.	Hapur.	Ghazi- abad.	Hathras.	Agra.	A country market in Partab- garh.
	Rs. s. p.	Rs. s. p.	Rs. s. p.	Rs. s. p.	
Taules (weighment)	1 4 0	1 9 0	1 11 0	1 9 0	
Dan (charity) ..	0 10 0	0 10 0	..	..
Wages ..	0 3 6	..	..	..
Filling charges ..	0 0 6	..	..	..
Bag allowances ..	0 3 0	0 3 0	..	..
Kards (dust, dirt, etc.).	0 5 0	0 5 0	..	..
Octroi ..	..	0 8 0	0 9 0	1 5 0	
Charity ..	..	0 1 0	..	..
Extra weight ..	..	0 10 0	..	..
Pulladari (porter- age).	..	..	1 4 0	1 4 0	
Brokerage ..	..	..	0 5 0	0 5 0	
Shahjirdi (religi- ous deduction)	..	..	0 4 0	..	
Goshala ..	..	..	0 1 0	..	
Bamila ..	..	..	..	0 0 3	
Miscellaneous ..	..	..	0 1 0	0 0 6	
Arath..	..	..	0 10 0	0 10 0	
Jhari (samindar's tax).	..	..	..	..	6 chhattaks in three maunds.
Weighmen's char- ges.	..	..	..	..	3 pies per rupee
For weighmen in kind.	..	..	..	..	1 to 1½ seer in 4 maunds.
Dharamshala ..	..	..	..	..	2 chhattaks.
Plew (water charges).	..	..	..	..	1 chhattak.
Sweeper ..	..	..	..	..	Ditto.
Total ..	2 9 0	4 3 0	4 13 0	5 1 9	The above charges for a load worth Rs. 100 amount to Rs 2-13-0.

Transport charges are roughly Rs. 3 per cart load of 20 to 25 maunds for a distance of twenty to twenty-five miles. Thus the total sum payable between threshing floor and *arhatia's* godown is about $5\frac{1}{2}$ annas a maund; or $6\frac{1}{2}$ per cent. if the grain is selling at Rs. $5\frac{1}{2}$ a maund.

266. (c) *Other defects*.—The *arhatia's* weighman is an adept at false weightment; the *beopari* and the cultivator are equally adept at ingenious adulteration. Purchaser and seller try to outwit each other in an unfair game. Neither the merchants nor the cultivators in outlying areas have any accurate knowledge of the seasonal or daily variations of prices, and often depend upon their mother-wit in the settlement of prices. In many *mandis* the *dallal* or broker uses secret signs to prevent the seller from following the course of long drawn-out bargaining.

267. *Regulated general markets*.—In the Bombay Presidency the Bombay Cotton Markets Act, passed in 1927, established regulated cotton markets. We consider, however, that markets for separate commodities are not suitable for this province, as most of the present *mandis* trade in a variety of commodities. This province needs regulated general markets, such as exist in Berar. We suggest that government, after making such inquiries as may seem necessary in suitable markets, should consider the question of introducing legislation. As recommended by the Royal Agricultural Commission the initial expenditure on land and warehouses incurred in starting such regulated markets should be met from a government loan. In a regulated market, complaints of wrong weightment, disputes regarding the quality of produce, and unfair *arhat* or incidental charges would all become impossible. It would be governed by a committee consisting of representatives of the various interests concerned whose duties would be to regulate the method of sales, to frame regulations for the control of middlemen and of market practices, and to deal with cases of fraudulent weightment, unauthorised deductions, or other illegitimate acts. The Royal Agricultural Commission have approved of this system and recommended its introduction in various parts of India, and have fully discussed the details of management. Chambers of Commerce are already established in some of our bigger *mandis*, such as Ghaziabad, Hapur and Chandansi, and have already done a good deal to organise and regulate their markets. But there is still much to be done, especially in the matter of grading produce, for which certified inspectors, preferably in government service, will be necessary.

268. *Co-operative marketing*.—But for efficient marketing more is required than mere regulation of markets. The most promising of

various suggestions for improvement is the introduction of co-operative marketing societies. We have made little progress in this direction as compared with Bombay and Bengal, where a considerable number of co-operative sale societies are at work, giving the benefit of good prices, of grading, and of standard weights to the cultivators. In the Punjab, too, there are nineteen co-operative commission shops. Our province has done little in this direction.^(*) We must insist that the success of co-operative credit is jeopardized, to a large extent, by the absence of organised marketing. The credit society and its members will benefit materially from the sale society, since the latter will collect the former's dues, and secure for its members a better price for their produce. Or it may be found possible for one society to combine both credit and sale operations.

269. *Methods of storage.*—The existing methods of storage are primitive. The peasant, according to his need, keeps his grain in earthen pots, in sacks, in bins or enclosures made of matting, mud and wickerwork, in large earthen cylinders, in a spare room, or (where the water level is low), in underground pits. Primitive as they are, such methods serve the peasant's turn: for he has not much to store, and since he stores for subsistence, not for sale, his stocks do not remain stored for long. Storage in the market differs from village storage in degree rather than in kind. The *kotha* or barn replaces the *kothila* or bin: the market *khatti* is an underground pit like the villager's, only larger: the *godown* is a warehouse where the grain is stocked in bags or sacks. Merchant and peasant alike suffer a certain loss from insects, or rats, or underground damp; yet it would be difficult to persuade either of them to adopt improved methods. The expense would be great, the climate is unfavourable, and except in the largest markets, the stocks held are usually small. As the routine agriculture of the present day is gradually transformed into commercial farming, and the cultivator gains power to withhold produce from sale against a rise in prices, the need for improved storage facilities will no doubt gradually increase. The peasantry of this province are not likely to require grain elevators or licensed warehouses for some years to come. But the advantages that are likely to accrue from a warehousing system on modern lines are so great that we desire to make certain general observations on the subject.

270. *Licensed warehouses.*—As a basis of such a system, we are content to accept the provisions of the late Mr. Madan's draft Bill

(*) Recently co-operative marketing of sugarcane has begun with great promise in Gorakhpur district.

"for the establishment of independent warehouses," a copy of which we received from the Central Committee and which we have reproduced in an appendix to this chapter. (*) To put his proposals briefly, such a warehouse must conform to certain conditions, laid down by statute or statutory regulation, in respect of such matters as sanitation, adulteration, grading and management generally; it must be subject to government supervision and inspection; and the warehouseman and the grading staff must be licensed by government. The warehouse warrant would be a negotiable instrument of title, and as such available to act as security against a loan, or to support a trade bill.

271. There is one point with which this draft Bill does not deal, but which we regard as important. The warehouseman cannot be permitted to deal in, or lend money on, goods of any kind which he receives in his warehouse, either on his own account or on that of others; to buy or sell others' goods on credit, or to act as a guarantor of such business. Similarly, he must not himself take part in the grading of the goods which he receives: the grading officer must be entirely independent, and preferably an officer in government service. The object of these conditions is obvious: the warehouseman to whom depositors entrust their goods for safe custody must not be in a position where he may be tempted to tamper with those goods, or exercise pressure on the depositor to sell him his goods outright.

272. Since government must, in any case, retain a large measure of control over such warehouses, the question arises whether it would not be advisable for government to retain their management entirely in its own hands, so that warehousing would be a State undertaking, worked by a State department. In this connexion some experienced witnesses argue as follows. Since, sooner or later, all goods that are surplus in one place must be transported by rail to another place where they are needed, the warehousing system, as a mere matter of convenience, must be linked to the railway system. The best location for a warehouse is actually at a railway station; and as the railway company must sooner or later handle a part of the goods, it will save both some trouble and some expense, if it takes over custody of those goods from the beginning; for instance, reweighment would then be unnecessary, and disputes about differences of weight would be impossible. Accordingly, since the State through its State railways can

(*) The Bill takes no account of certain matters of some importance, though most of these we refer in the text: a complete list will be found in Evidence, Vol. II, pp. 90-91. of these we refer in the text: a complete list will be found in Evidence, Vol II, pp. 90-91.

conveniently, and should, take over the management of a large number of warehouses (including, *ex hypothesi*, all the most important), it may as well take over the management of *all* warehouses.

273. We are of opinion that, even on their own premises, the advocates of State intervention somewhat overstate their case. Many commercial centres possess more lines of railway than one, and their stations are not always contiguous: (°) at which station, in such a case, is the warehouse to be located? Elsewhere, the business quarter of the city in question may be situated at a considerable distance from any station: in such a case the most convenient site for the warehouse would generally be in the business quarter.(°) Again, the market or manufacturing centre might be situated either at a considerable distance from any railway station, or from any station where large quantities of goods could conveniently be handled.(°) In all these cases, the usual method of linking the warehouses to the railway system would be by private sidings and private lengths of line. And, lastly, no warehousing system would be complete unless every little market has its own little warehouse. The position, therefore, is that whilst the railways could manage a certain number of warehouses without much difficulty or much additional expense, there would be some which it could not conveniently manage, and many which it could not manage at all,—save at a prohibitive cost. And we should be strongly averse to the alternative course,—namely, the creation of a separate warehousing department. Not only is it almost impossible for government, as the result partly of heavy overhead charges, partly of the rigidity of its financial system, to manage any commercial undertaking as cheaply as a private firm: but we consider it undesirable that the State should appropriate to itself a profitable business, unless that business is too large for private enterprise, or of great national importance.

274. The licensed warehouse system, in the present condition of marketing, presents many advantages. *Firstly*, the producer by means of the grading system will learn that profit results from improved quality, of seed, of manure, of agricultural methods. *Secondly*, it will ensure the use of correct weights and defeat any attempt at false weightment and also adulteration. *Thirdly*, it will greatly reduce handling, weighing and other incidental charges. *Lastly*, it will provide a new negotiable

(°) Lucknow has three lines of railways: the stations of the East Indian Railway and the Rohilkhand and Kumaon Railway are adjacent; the nearest station of the Bengal and North-Western Railway is at a considerable distance.

(°) For instance, Cawnpore and Lucknow.

(°) For instance, Clatterbuckganj near Bareilly, the home of the resin industry and an important centre of the timber trade, which has two private sidings.

instrument of title, the use of which does not present the sentimental objections which influence the merchant who hypothecates his goods as security to a bank,—namely, the affixation of the banker's seal and name board. In this connexion, however, it is as well not to exaggerate. There are some who regard the warehouse warrant as likely to facilitate the use of trade bills. But it would certainly be inconvenient to support a bill by such a warrant. The bill would often pass through a series of discounts; if the original holder wished to sell his goods, or any part of them before the bill had been met, he might find it difficult to trace and recover the warrant, and in any case, whether he recovered it or not, he might have to meet the bill before it was mature, at a time when to meet it caused him inconvenience. The warehouse warrant makes suitable security for a loan, an overdraft, or a cash credit; but a trade bill must always depend on the personal reputation of the person who draws it. The advantages of an organised system of licensed warehousing are sufficiently great without such exaggeration.

275. *Recent changes in marketing methods.*—It is difficult to gauge present tendencies in agricultural marketing and finance. Changes are undoubtedly going on to suit the circumstances of modern trade and finance, although such changes are more evident in the big trade and industrial centres than in the country towns and markets. For instance, the richer cultivators are, to some extent, bringing their crops to market on their own carts, ponies, or other conveyances or through hired carriers, and in some cases are looking to the *arhatia* rather than to the village *bania* for their finance. In the same manner large buyers who themselves are shippers overseas are now beginning to deal direct with large cultivators. Both changes are for the better, since they will simplify trade by eliminating middlemen. But it is doubtful whether such tendencies as yet have spread to any great extent. In the present conditions of communications and transport in the countryside, the *beopari* is an indispensable link between the village and the grain-market. The cultivators deal in small quantities; the grain is of diverse varieties; their sales of produce are occasional, and they know nothing of grades of quality. They cannot follow market conditions, and, even if they have information about market prices, they do not know what their local prices should be. Further, the credit of a small cultivator is small and precarious, and he must depend upon the village *mahajan*, a local man who knows his solvency, for the necessary capital to carry on his agricultural operations. The village *mahajan* and *beopari* are also small men, who depend on borrowed capital, and look to the *arhatia* or the local *sahukar* for their finance. Joint-stock banks are still few in number, at all events in rural areas; whilst the

co-operative movement, which is at present concerned with the primary function of organising credit, has helped the cultivator very little in disposing of his produce. Thus the middleman for years to come will be an essential feature in rural economy,—his principal function the collection and distribution of produce, and the adjustment of supply to demand from locality to locality and from season to season. But the sooner the present system of marketing can be simplified by the elimination of middlemen or the telescoping of their functions, the better for the producer: for at present he undoubtedly loses to the middleman a considerable part of the profit that should go to him.

APPENDIX.

THE AMERICAN SYSTEM OF LICENSED WAREHOUSES.

In India, as elsewhere, when a merchant or manufacturer is in need of funds, one of the ways in which he can raise them is by hypothecating his material, goods, or stock-in-trade to a bank which then allows him an overdraft or cash credit. But this system has certain defects.—

(1) A bank must keep a large proportion of its funds in a liquid form, i.e., cash or easily negotiable securities. A merchant's goods are not an asset of this kind, since they cannot be quickly turned into cash. The amount of finance of this kind that the banks are willing to offer is, therefore, strictly limited.

(2) When a merchant has hypothecated his goods he cannot afford to give credit to the customers who buy them, because when he sells them he must to the same extent reduce his overdraft, which can only be done with cash. But a cash price is usually lower than a credit price, and the merchant loses whilst his customer also is often put to inconvenience. Further a merchant who has to sell at a low price will only buy, if he possibly can, at a still lower price: and the producer then suffers too.

(3) The goods remain in the possession of the merchant: and this makes it possible for them to depreciate the bank's security by mismanagement, negligence or even fraud. To avoid this, banks often insist on the goods being stored in their own godowns,—which a big merchant will resent as derogatory to his self-respect,—or on the provision of some collateral security,—which the small merchant finds it difficult to furnish. Banks, therefore, are chary of this kind of transaction, and merchants cannot get all the credit facilities that they require.

In the United States, the system till 1916 was much the same as it now is in India. An Act was then passed, which has been amended in 1919 and 1923, to establish and regulate licensed warehouses. These warehouses are licensed by the Government, under conditions relating to supervision and inspection which ensure that the storage facilities are satisfactory and adequate, and that there are suitable arrangements for grading all products according to quality. The person placing his goods in such a warehouse receives a warehouse receipt, giving full information regarding the goods themselves and the manner of their disposal. On presentation of such a receipt the warehouseman is bound to hand over the goods described in it to the person who presents it, subject to the discharge by the latter of certain liabilities.

A warehouse receipt of this kind is simply a negotiable instrument of title, which can be and is readily bought and sold like any other

similar instrument. It is, in fact, a liquid asset in which banks can safely invest, or accept as collateral for a loan, overdraft, or cash credit. Since the goods are in the hands of a third party, who has everything to lose and nothing to gain by mismanagement, they are entirely safe.

The possibility of improving the credit facilities of the country by means of licensed warehouses of the American type attracted the attention of the late Mr. B. F. Madan, who drew up a draft Bill on the model of the American Act. This Bill is reprinted below.

Draft of a Bill to encourage the establishment of independent warehouses in India and provide for their proper supervision and control.

WHEREAS it is expedient to encourage the establishment of independent warehouses in India, and arrange for their proper supervision and control; it is hereby enacted as follows:—

1. (1) This Act may be called the Indian Licensed Warehouses Act.

(2) It shall extend to the whole of British India and shall come into force from

2. In this Act, unless there is anything repugnant to the subject or the context—

(a) "warehouse" will mean every building structure or other protected enclosure in which any raw produce or manufactures are stored,

(b) "person" will include two or more persons acting in partnership or a company registered under the Indian Companies Act, 1913,

(c) "warehouseman" means a person lawfully engaged in the business of storing goods and merchandise including agricultural produce,

(d) "receipt" means receipt issued by the proprietor of a warehouse for goods entrusted to him for storage.

3. The Governor-General in Council may on application to him issue to any warehouseman a licence for the conduct of a warehouse or warehouses in accordance with this Act and such rules and regulations as may be made hereunder:

Provided that such warehouse is found suitable for the storage of the goods or merchandise named in the application for licence and the warehouseman agrees to comply with and abide by all the terms of this Act and the rules and regulations made in pursuance of the same:

Provided further that each such licence shall be on such terms and for such period as the Governor-General in Council may deem fit and such licence may be renewed, extended or modified from time to time at the discretion of the Governor-General in Council.

4. The Governor-General in Council is hereby authorized—

- (a) upon application of any person for a licence to inspect or cause to be inspected the warehouse or warehouses contemplated in such application,
- (b) at any time and from time to time order inspection of any warehouse or warehouses licensed under this Act,
- (c) to determine whether warehouses already licensed or for which licences may have been applied for are suitable for the proper storage of the particular class of goods or merchandise contemplated in the licence or application for licence,
- (d) to classify warehouses licensed under this Act according to ownership, location, construction, surroundings, capacity and other qualities,
- (e) to prescribe within the limitations of this Act the duties of the warehouseman conducting warehouses licensed under this Act,
- (f) to suspend and, if necessary, to revoke any licence granted under this Act for any breach of the provisions of this Act or of the rules and regulations made hereunder.

5. The Governor-General in Council shall be entitled to collect a reasonable fee for examination of or inspection of any warehouse that is the subject of an application for a licence under this Act and shall also be entitled to collect a fee of not exceeding Rs. per annum for each licence or renewal thereof under this Act.

6. The Governor-General in Council may upon presentation of satisfactory proof of competency issue to any person a licence to inspect sample and/or classify any agricultural product or products stored or to be stored in a warehouse licensed under this Act according to condition, grade or otherwise and to weigh the same and to certify the weight thereof upon condition that such person agrees to comply with and abide by the terms of this Act and of the rules and regulations prescribed hereunder so far as the same may relate to him.

7. The licence of any such person licensed under clause 6 may be suspended or revoked by the Governor-General in Council if he is satisfied that such licensee has failed to correctly inspect sample, classify or weigh any agricultural product or products or has violated any of the provisions of this Act or of the rules and regulations made hereunder or has used his licence or allowed it to be used for any improper purpose whatsoever.

8. Every warehouseman conducting a warehouse licensed under this Act shall receive for storage therein so far as its capacity permits any goods or merchandise of the kind customarily stored therein by him.

which may be tendered to him in a suitable condition for warehousing in the usual manner in the ordinary course of business without making any discrimination between persons desiring to avail themselves of warehouse facilities.

9. Every person who deposits goods or merchandise including raw agricultural products in a warehouse licensed under this Act shall be deemed to have deposited the same subject to the terms of this Act and the rules and regulations prescribed hereunder.

10. For all goods and merchandise including agricultural products stored in a warehouse licensed under this Act original receipts shall be issued by the warehouseman conducting the same but no receipt shall be issued for any such goods and merchandise or agricultural products unless the same are actually stored in the warehouse at the time of issuance thereof.

11. Every such receipt shall embody the following particulars, namely—

- (a) location of the warehouse,
- (b) date of issue of receipt,
- (c) consecutive serial number of receipt,
- (d) statement whether the subject-matter of the receipt is deliverable to bearer or to a specified person or to his order,
- (e) rate of storage charges,
- (f) marks, number and weight of packages received provided however that where it is some agricultural product in bulk the description and quantity thereof shall suffice,
- (g) the class and grade of any agricultural product received for storage where the depositor wishes it to be shown on such receipt in which case it shall be as certified by a person licensed under clause 6 of this Act,
- (h) a statement that the receipt is issued subject to this Act and the rules and regulations made hereunder,
- (i) if the warehouseman is owner or joint owner of any goods the subject-matter of such receipt a statement to that effect,
- (j) a statement of the amount of advance made to the depositor or any other liability by the depositor due to the warehouseman for which he claims a lien provided however that where the precise amount cannot be ascertained at date of issue of such receipt a statement that lien is claimed will suffice,
- (k) such other terms and conditions as may be laid down by the Governor-General in Council in this behalf,
- (l) signature of the warehouseman or of some person duly authorized by him and the number of his licence.

12. So long as an original receipt issued under this Act is outstanding and uncanceled by the warehouseman himself no other or further receipt shall be issued in respect of the same goods, merchandise or produce provided however that in case a receipt is lost or destroyed a fresh receipt may be issued in identical terms and bearing the same date and number as the original on satisfactory security being given by the person asking for such duplicate on lines laid down in the rules and regulations made in pursuance of this Act.

13. Upon demand made by the holder of any such receipt and offer to surrender such receipt with such endorsement if negotiable as may be necessary and upon readiness to satisfy the warehouseman's lien and/or charges, and give proper acknowledgement of discharge the warehouseman shall forthwith deliver the goods that may be the subject-matter of such receipt provided however that all such receipts that come back into his hands duly discharged shall be forthwith cancelled by the warehouseman and preserved on his record for at least three calendar years from date of such discharge.

14. Every warehouseman licensed under this Act shall keep in a place of safety complete and correct records of all agricultural products stored therein and withdrawn therefrom and of all receipts issued by him and of receipts returned and cancelled and shall conduct the warehouse in all respects in compliance with this Act and the rules and regulations made thereunder.

15. Every licensed warehouseman shall report to the Governor-General in Council the condition of his warehouse or warehouses, and the contents, operation and business thereof in such form and at such times as the Governor-General in Council may require.

16. The Governor-General in Council may cause an inspection or examination to be made of any warehouse licensed hereunder and of the goods stored therein and of the books and records thereof at any time by person or persons appointed by him in that behalf.

17. Whenever as a result of such examination it is found that a warehouseman is not conducting his warehouse in accordance with this Act or the rules and regulations made hereunder or that he is charging unreasonable and exorbitant rates the Governor-General in Council may order his licence to be suspended and if satisfactory explanation of the breach of this Act or of the rules and regulations made hereunder is not forthcoming may order such licence to be revoked.

18. The Governor-General in Council may order to be published in the *Gazette of India* the result of any investigations under clause 3 or under clauses 16 and 17. There shall also be published in the *Gazette of India* the names and locations of warehouses licensed hereunder with the names and addresses of the licensees as also a list of all licences revoked or terminated under this Act and the reasons therefor.

19. The Governor-General in Council shall from time to time make such rules and regulations as may appear to him advisable for the proper carrying out of the provisions of this Act.

20. Every person who shall forge, alter, counterfeit, simulate or falsely represent or otherwise unlawfully use any licence issued by the Governor-General in Council under this Act or shall issue or utter a false or fraudulent receipt or certificate and every person who shall without lawful authority convert to his own use or use for the purposes of securing a loan or remove from a licensed warehouse contrary to this Act or the rules and regulations made hereunder any goods or merchandise stored or to be stored in such warehouse and for which licensed receipts have been or are to be issued shall be deemed guilty of a misdemeanour and shall upon conviction be liable to a fine not exceeding ten thousand rupees or double the value of the goods or merchandise involved whichever is the greater or imprisonment for a period not exceeding twelve months or both at the discretion of the court and the owner of the goods or merchandise so converted, used or removed may in the discretion of the Governor-General in Council be reimbursed out of the fines so collected to the extent that he may not otherwise have been reimbursed.

21. Any person who shall with intent to deceive draw a false sample of or shall wilfully mutilate or falsely represent a sample drawn under this Act or shall classify grade or weigh fraudulently any agricultural products stored or to be stored under the provisions of this Act shall be deemed guilty of a misdemeanour and upon conviction be liable to a fine of rupees five hundred or imprisonment for three months or both in the discretion of the court.

22. It shall be open to the Governor-General in Council to offer an inducement to the establishment of licensed warehouses as contemplated in this Act by way of grant of land free or at a nominal rental or by a subsidy towards the cost of construction or by guarantee of a reasonable return on the total capital invested or in any other way that may appear most suitable to the Governor-General in Council in such place or places and on such terms and conditions as may appear desirable to the Governor-General in Council provided however that where the inducement to be offered is a guarantee of a reasonable return on capital it shall not exceed a return of more than five per cent. per annum and provided further that where any payment by the Governor-General in Council becomes necessary under any such guarantee a separate account shall be kept of the same and Government shall be entitled to one-half of all earnings of any warehouse so guaranteed in excess of a return of six per cent. on the capital invested until the amount paid to such warehouse in order to implement the guarantee given to it and standing at the debit of such separate account shall have been entirely wiped off.

CHAPTER VI.

THE PRESENT SITUATION IN RESPECT OF CO-OPERATION.

276. *Co-operation defined.*—Co-operation may be described as a method of work or a form of organisation which seeks to utilise and develop those moral forces which will enable people to unite on a voluntary and democratic basis for a common end, in order to improve their condition in every walk and phase of life, physical, mental and economic. Its basic principles are self-help and mutual help, while honesty, loyalty and mutual trust are its first essentials. Though we consider that it may ultimately be the cure for a great many evils, we deprecate the tendency to put forward co-operation as the sovereign remedy for all ills for which no other solution is apparent. It has its own difficulties, and the exact method in which it should be applied to each individual problem needs to be carefully studied in detail before any practical steps are taken to solve the problem along co-operative lines.

277. *The co-operative credit society.*—The earliest and commonest form of co-operation in the province is the co-operative credit society for agriculturists. Its methods of work have varied considerably from time to time, but the general principles are unchanged; and the constitution and working of such a society at the present time can conveniently be described at this stage. Ten or more men residing in a the same neighbour who trust each other and wish to borrow or to save money, in furtherance of their common object combine to form a co-operative society of which they are the members. This union is entirely voluntary; any member may sever his connexion with the society at any time he pleases; but so long as he remains a member he is under discipline and must abide by the rules and regulations of the society. One of these rules is that each member must put down a sum of money, usually Rs. 20, from his own savings in this joint undertaking, which is called his share; but as cultivators rarely can put down so large a sum at once, the member is allowed to pay in instalments of one rupee at each harvest, so that the whole amount is completed in ten years. Any member who can may buy more shares than one, in which case his instalment is increased proportionately. This share is the member's property, and under the law it cannot be attached. He can only withdraw it, however, two years after he ceases to be a member, during which period, too, he remains liable for the society's debts.

He is not entitled to receive a dividend till he has paid up the whole of it. Each shareholder, no matter how many shares he holds, has only one vote in the general meeting of the society which decides all important matters; the routine management, however, is entrusted to a small elected committee called the *panchayat*. As the chief need of most of the members is money, the society endeavours to ascertain what each member's annual needs are likely to be in normal circumstances; this amount is called his normal credit.

278. *The society and the central bank.*—When the total needs of all members have been ascertained, arrangements are made to borrow the amount required. For this purpose all the members pledge their joint security, whereby they can get the money at a lower rate of interest than if each were to borrow singly. In the early days the societies obtained funds from private capitalists, who, for philanthropic or interested motives, deposited money with the society for a fixed period at an agreed rate of interest. This method, however, proved unsatisfactory; for a society could not be sure of getting such deposits, nor was it always able to repay the money when the depositor asked for it. A more suitable credit agency was then devised, namely, the central or district co-operative bank. Such a bank obtains its funds in the shape of deposits or shares from the public, and shares from the societies which it finances. The latter are known as ordinary and the former as preference shares. Its management is vested in a Board of directors elected from amongst the shareholders at a general meeting, which is the supreme authority. Each shareholder has one vote, whatever the number of shares that he holds. The object of the bank is to advance money to societies working within its area of operations; the amount of a loan is limited to twice the normal value of the society's shares. At the present time a society rarely borrows money from any other source than the central bank. The bank lends to the society, ordinarily at 12 per cent., on the joint responsibility of all the members.

279. *The society and its members.*—The society in its turn distributes this money among the members at 15 per cent. Few members have any tangible security to offer; their only asset is their good reputation, on which the society is fain to rely, thus, in the most literal sense, "making capital of" their honesty and their labour. Nevertheless, each borrower must produce two sureties who are themselves members; their duty is to see that the amount advanced is not in excess of the borrower's minimum requirements, that he spends the money for the purpose for which he takes it, and that he repays it at the time fixed, failing which they themselves become liable for its repayment. To facilitate repayments it is usual to fix suitable instalments based on the

CHAPTER VI.

THE PRESENT SITUATION IN RESPECT OF CO-OPERATION.

276. *Co-operation defined.*—Co-operation may be described as a method of work or a form of organisation which seeks to utilise and develop those moral forces which will enable people to unite on a voluntary and democratic basis for a common end, in order to improve their condition in every walk and phase of life, physical, mental and economic. Its basic principles are self-help and mutual help, while honesty, loyalty and mutual trust are its first essentials. Though we consider that it may ultimately be the cure for a great many evils, we deprecate the tendency to put forward co-operation as the sovereign remedy for all ills for which no other solution is apparent. It has its own difficulties, and the exact method in which it should be applied to each individual problem needs to be carefully studied in detail before any practical steps are taken to solve the problem along co-operative lines.

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borrower's probable income. The society relies primarily on persuasion and moral pressure to induce members to repay their loans punctually; but the members are merely human, and default does often occur. In such cases the society requests the Registrar to appoint an arbitrator who, after hearing both parties, gives a suitable decree or award, a procedure which reduces expense to both parties; and further to help the societies, Government have made rules providing for the execution of such awards through the collector as arrears of land revenue.

280. *The self-supporting society.*—If there is no default in a society, it rapidly reaches a stage where it need no longer borrow. The interest realized from members, after deducting necessary expenses, is placed in the society's reserve fund. This fund is the property of the society as a whole and no individual can claim any share in it; on liquidation it is not paid to the members, but is spent on some work of public utility, preferably in the village. Loans are made, however, out of this fund, which thus grows on a basis of compound interest. Similarly, the difference of 3 per cent. between the rate of 15 per cent. at which the society lends, and that of 12 per cent. at which it borrows, also goes to the reserve fund. Thus the society's "owned capital" which is made up of the reserve fund together with the share capital accumulates rapidly, until in course of time it becomes sufficient to meet the needs of the members, and further borrowing becomes unnecessary. The position is then that the society lends money to its members out of funds of which the members themselves are the owners; in other words, the members borrow from themselves, pay interest to themselves, and can if they choose reduce the rate of interest, though rarely lower than 6 per cent. since money is needed to cover the cost of management and other miscellaneous expenses. Some 400 societies have thus reduced their rate of interest.

281. *Management of a society.*—In some societies one of the members keeps the accounts; he gets no pay, but receives a bonus at the close of the year, which is calculated on the basis of the profits. Where no literate member is available, the central or district bank appoints a paid secretary who keeps the accounts of 10 or 12 neighbouring societies: he is paid from the secretary pay fund, which is built up from contributions of the societies, to the extent of one-eighth of the interest earned in the previous year. The banks also employ supervisors whose chief duty it is to educate the members up to a full sense of their responsibilities; sometimes they are a bank's employees, sometimes they work under the control of a provincial body formed by the union of all the banks in the province. These supervisors who have been specially trained have each 25 to 30 societies in his charge, and

is expected to visit each at least once every two or three months and more often if possible. A supervisor's pay varies from Rs. 30 to Rs. 75 per mensem. There is also a government staff of inspectors to guide and help in controlling the supervisors. These inspectors are as a rule graduates, and draw pay between Rs. 120 and Rs. 300 per mensem. Each inspector has a circle of about 150 societies; the circle is usually a district. Government also provides one auditor, on a pay of Rs. 50 to Rs. 100 per mensem, for each inspector's circle, whose duty is to overhaul completely the accounts of each society once a year. Both auditors and inspectors, who are fully trained men, work under the control of an assistant registrar, who is a gazetted officer; there is one for each division. At the head of the department is the Registrar, with two deputy registrars. Lastly, much honorary work is done by directors of banks and other honorary organisers.

282. *The member's responsibility.*—But these outside agencies can only advise, help and guide co-operative societies, they cannot manage them; the members themselves must learn to manage their own affairs. And as each member is jointly and severally liable to the extent of the whole of his property for the society's debts, he must in his own interests keep in close touch with all his fellow members, and with the work of the society. He must see that no individual member borrows too much money, that money is advanced only for necessary or productive purposes, that the money advanced is spent only for the purpose for which it was given, and that it is repaid promptly at the fixed time. Theoretically, therefore, a credit society should encourage thrift and enable the borrower to become his own lender, whilst each member's credit is under the control of all members and no one can get too much or waste that which he receives. In actual practice, however, few societies have succeeded in attaining these objects, and the history of the co-operative movement in the province shows how difficult it is to adapt an excellent theory to local conditions.

283. *Early societies.*—The first few experimental societies were started in 1900 with a grant of Rs. 1,000 each from Government and their number rose rapidly to over 200. But these societies were innocent of all co-operative principles; their sole idea was to supply agriculturists with the money that they needed at as low a rate as possible and so to free them from the hands of usurious moneylenders. They were thus simply an agency for the distribution and collection of cheap agricultural advances, and the only difficulties to which the first Registrar called attention were those of "account keeping, raising of capital and the recruitment of members of various castes in the same small society."

Accordingly he introduced a system of "*patti societies*" whose jurisdiction extended over a number of neighbouring villages. A *patti society* was a central society, to which were affiliated a number of other societies, each containing members of only one caste and extending over several villages; but these caste societies existed only in name, for all accounts were kept at the *patti society* itself, and for all practical purposes the *patti society* was a primary society whose area of operations extended over several villages. Those who were responsible for the advancing of loans could not have that intimate local knowledge of the borrower that is essential in a true co-operative society, and the element of mutual trust was conspicuous by its absence. The inevitable result followed, and there is now not a single one of these *patti societies* left in the province.

284. *The second stage, 1907-13.*—As a result of the experience derived from these failures a truer conception of the scope of a co-operative credit society was evolved in 1907. The guiding principle of "one village, one society" was laid down, and in order to encourage thrift the share system was introduced; while the difficulty of account keeping was surmounted by the appointment of itinerant group secretaries, each of whom kept the accounts of eight or ten neighbouring societies. A hope had been entertained that the members of a society would be able to decide how much money could safely be advanced to an individual; but it soon became clear that the universal desire was to secure as much money as possible. Money was borrowed from the society to repay outside debts, and immediately after more money was borrowed from moneylenders for other purposes, and the result of cheap credit was often increased extravagance. Accordingly, in 1910, it was decided to restrict advances in new societies only to short period loans and not to advance money for the repayment of outside debts till the members had shown, by their use of such loans, that they had developed habits of thrift and were fit to be entrusted with cheap credit. Nevertheless, the registration of societies went on apace as a result of the formation of central banks and banking unions to finance the societies and the passing of the Act of 1912; and in the quinquennium 1909—1913 nearly 2,500 societies came into existence.

285. *The third stage, 1914-18.*—Soon after, however, a note of warning was sounded by the Registrar. In particular, societies of artisans or cottage industrialists were found to be very unstable and many had to be liquidated; while agricultural societies were also in a bad way. It was realised that central banks were, by their constitution, ill-adapted to establish that intimate contact with the societies which is required for fostering and training them as they were largely under

the influence of urban directors who had not the time to visit the villages. The remedy suggested was the better training of the supervisors employed by banks, and the teaching of members to keep their own accounts. Moreover, each society was now required to fix a maximum limit beyond which it would not advance a loan to any member, no matter what his *haisiyat* or status; while even within this limit the amount of loan to be advanced was fixed in consideration of the borrower's status and normal needs.

286. *The fourth stage, 1919-23.*—Subsequently an increase of government staff was sanctioned; and an attempt was made to combine consolidation with expansion. But by this time the financing central banks had become powerful enough to dominate the primary societies through their paid staff; the latter devoted their attention to the financial interests of the banks, to the organisation of fresh societies as an outlet for the banks' surplus money. Accordingly, over 3,300 societies were registered in the five years 1919—23; but there was very little consolidation. The movement appeared on paper to have progressed rapidly, but, as the Board of Revenue pointed out in one of their reports, there was little genuine co-operation and the public were apathetic. A committee was, therefore, appointed by Government in 1925 to inquire into the real state of the co-operative movement and suggest remedies.

287. *The Oakden Committee.*—As a result of its recommendations the control of supervisors has now been transferred from banks to a provincial supervising union and an attempt has been made to restore the primary society to its rightful place as the keystone of the co-operative system. Member secretaries have been introduced in 1,100 societies in place of group secretaries, and the inspecting and supervising staff which has been considerably strengthened is now given intensive training in co-operative matters. There is greater co-ordination between the co-operative department and other welfare departments such as agriculture, sanitation, education, industries, etc., and schemes have been set on foot to encourage better farming and better living. It is realized that the problems of the villager cannot be solved by credit alone, and that if his lot is to be improved every aspect of village life must be together treated. That is what a rural reconstruction, or better farming and living, society attempts to do. Its avowed object is to promote the economic and social interests of the members by reorganising the common life of the village, and in particular to enable them to better their condition through co-operation. The members themselves frame and adopt certain general rules of conduct and behaviour which are binding on all; and each members agrees to abide by the rules and to pay a small fine in

case he fails to do so. This power of fining, as well as the general management of the work of the society, are vested in the hands of an elected *panchayat* formed of the most trusted and respectable men of the village. But the work is so vast and diverse that a number of sub-groups have to be formed, each looking after a different branch of the work. These sub-groups have their own *panchayats* which work for the advancement of their special interests, in harmony and co-operation with the general *panchayat* on which each sub-group is represented. The society tries to create and focus public opinion in the village and to develop the public conscience. There is adult education to teach the members as well as their womenfolk to think for themselves, to express themselves, to do things for themselves, and generally to broaden their mental horizon. Village dramas, singing, games and scouting receive their due share of attention; social reforms, especially the restriction of extravagant expenditure, sanitary and agricultural improvements, are carried out by all in accordance with the resolutions of the society on the subject. In short, such a society is designed to spread the co-operative spirit and co-operative ideals among the villagers, to teach them to act in harmony and in unity for the common good of all, and to mould their characters so that they may not only be more useful members of society, but attain to some degree of happiness themselves and spread happiness round them.

288. A good deal of intensive work has, however, to be done before such a society can be organised. The attention of the department has been concentrated of late on effecting improvements in existing societies which undertake work of this kind, and closing down those which cannot be reorganised. Some progress there has doubtless been, but the results hitherto achieved are not great, and co-operation is not yet a living force in the province, save perhaps in a few isolated places. Credit societies have barely touched the fringe of the problem of agricultural indebtedness as may be seen from the fact that they advanced to their members during 1928-29 only 41·85 lakhs for all their requirements. A statement showing the progress of the movement (on paper) from its inception to the present time is given in Appendix I to this Chapter; it may be added that out of about 8,500 societies registered in this period some 2,700 have had to be liquidated.

289. *Reasons for past failures.*—The reasons for the comparative failure of the co-operative credit movement in the province have been briefly mentioned in Chapter III, paragraph 141; it cannot be denied that some mistakes have been made in the past, but the existing defects and difficulties appear to be inherent in the system of work. The

essence of a co-operative society is that the members should learn to manage their own affairs; with an illiterate peasantry the task of teaching them to do so is a slow and laborious process. In particular, facile credit may be a dangerous weapon, and it is essential to train people in its use before they are entrusted with it. The extreme importance of education and supervision has so far not been adequately realized, whilst the desire to see quick and widespread results has actually retarded progress. In the early days of the movement it may have been advisable to start societies at haphazard wherever prospects appeared favourable, but the time has now come to discard that method for a system or organised development. Instead of societies scattered all over the province, we recommend concentrated effort in one or two selected areas which should be covered with a network of societies,—a change which should facilitate supervision and effectively spread real co-operation among the agriculturists.

290. *The new class of supervisors.*—It is hoped that as a result of the recent change, whereby the control of supervisors has been transferred from the financing banks to a provincial supervising union, greater attention will be paid to the education of the members and the supervision of the societies. A supervisor employed by a bank will devote himself chiefly to the work of advancing and collecting money, and ignore the improvement of the society; but working under a separate agency he can be made to attend adequately to both duties. It has been contended in some quarters that this change will react harmfully on the banks, who will now have to depend largely on an outside agency; but, in fact, the provincial union consists of the representatives of the banks, and its employees are, therefore, still under their indirect control. It may be true that in some individual cases supervisors have ignored the bank's directors; but such cases are unavoidable in a period of transition, and the system cannot be condemned because of such stray instances. We consider that the principle of entrusting supervision to a provincial union of the banks is sound and calls for no change. When the system was first introduced, only 45 banks consented to transfer the control of their supervisors to the union; but within two years the number has risen to 58, which shows that the work of this union is appreciated. And in any case the exact method of controlling supervisors is a matter of secondary importance; the chief need is to see that they attend to their work of educating the members in the principles and practice of co-operation.

291. *The need for preliminary training.*—It is necessary that some preliminary training should be given to the prospective members before a society is organised; and this should be followed up by constant further

education even after it is formed. Experience has, however, shown that the mere formation of a credit society will not lead to the development of the co-operative spirit. That spirit must be engendered first; when it exists, success of any credit society that is subsequently created is ensured. We hold, therefore, that until persons have shown their fitness to work co-operatively by managing a society for rural reconstruction or better living, they should not be considered fit to control a co-operative credit society. We accordingly recommend that ordinarily societies for rural reconstruction, better living or encouraging thrift should be organised before credit societies; or if that is not practicable the two should be started side by side.

292. *Difficulties in connexion with the making of loans.*—As soon as a credit society is organised it has to decide the size of the loan which it will advance to each individual, the purposes for which it may be granted, and the instalments in which the loan is to be repaid. Agricultural loans may be divided into three classes in accordance with their objects and the period of repayment. Short-term or crop loans are for ordinary everyday expenses, including cultivation and maintenance; they should ordinarily be repaid from the proceeds of the next harvest. Intermediate loans are those taken for the purchase of bullocks or implements, for which a suitable period of repayment seems to be two or three years, though in tracts where bullocks are sold after each harvest loans for bullocks must be treated as short-term loans. Lastly, there are long-term loans chiefly for the redemption of old debts or ceremonial expenses, or occasionally for permanent improvements.

293. A co-operative society ought to, and in theory does, distinguish between these various classes of loans. A borrower is always asked to state the object for which he wants the loan; unproductive loans are discouraged and suitable instalments fixed. In practice, however, there is a marked tendency for borrowers to assert that the money is wanted for the purchase of bullocks so as to reduce the instalment. It will be necessary by adequate supervision to make sure that money borrowed ostensibly for the purchase of bullocks is used for that purpose. The experiment might also be tried of charging a slightly higher rate for intermediate than for short-term loans; the trouble lies too deep to be thus easily cured. The fact is that the co-operative society in the absence of sufficient security dare not advance to its members all the money that they need; and the members must supplement their resources by borrowing from moneylenders. In such circumstances they naturally regard it as a matter of no moment whether they use all their borrowings indifferently for all their ordinary requirements. The lenders, too, are unable to gauge the extent of

nature of the borrowers' real needs. It is necessary, therefore, to make intensive local inquiries to ascertain what the normal needs of the cultivators are and when they arise. Under the present system the *haisiyat* of an individual is worked out automatically as so many times his rent, so many times the value of his bullocks, and so on, and the amount of the outside indebtedness is deducted therefrom. The natural result is that the outside debt is invariably concealed, for if it were revealed the *haisiyat* would often be a *minus* quantity. The normal credit of an individual is taken to be from 50 per cent. to 70 per cent. of the *haisiyat*. We cannot but condemn this practice. It is to be regretted that though a quarter of a century has elapsed since the introduction of co-operation, no serious attempt has yet been made to ascertain the normal requirements of a cultivator for maintenance and expenses of cultivation. The illiterate cultivator keeps no accounts and can give no reliable information on the subject; but that is no excuse for making no attempt to obtain it. At present it is impossible for a co-operative credit society to make sure that it advances money only when it is necessary or to see that the money advanced is used for the objects for which it was given, for money advanced ostensibly for one need is actually used for any need as it arises. In other words, a society cannot fulfil even its primary and elementary function. We strongly recommend, therefore, that detailed inquiries should be made at a very early date in different localities to ascertain exactly how much money is needed by different classes of cultivators, both for their maintenance and their agricultural operations and at what periods of the year, and how these needs are met at present. The best way of doing this would be to induce selected literate persons to keep detailed accounts of their income and expenditure. On the basis of these figures it would be possible to guide the society aright in making advances.

294. Having ascertained the real normal needs of the members, i.e., their requirements for productive purposes, a co-operative society should always try to meet them. The question of special requirements, chiefly for unproductive purposes and other long-term loans, is more difficult. On the one hand, it is urged by some that unless the societies tackle the whole problem of the indebtedness of the villagers from the start and help them in clearing off their outside debts they must continue in their present dependence on the moneylender. On the other hand, it is pointed out that such attempts have been made more than once in the past and have invariably failed. In the early days of the movement money was given freely for the redemption of outside debts and societies were encouraged to give money for ceremonial expenses,

in the hope that they would thereby be able to exercise a check on them; in practice, however, it was found that the amount borrowed from the society was in addition to what was taken from the money-lender, and the result was an increase in unproductive debt. We therefore recommend that credit societies should not ordinarily give long-term loans, or loans for unproductive purposes. If the present law is amended, and tenants are empowered to transfer occupancy rights to land mortgage societies, the latter may be established for the giving of long-term loans in areas where credit societies are flourishing, i.e., where the members have shown by their conduct that they are thoroughly conversant with co-operative principles and have learnt the lesson of thrift.

295. It has been suggested that in the meantime the situation can be met by making a rule that no member of a society may borrow from a moneylender; that the fact that a person has joined a society should be specially notified (as is done when estates are taken under the Court of Wards), so that no loans may be advanced to such persons; while any member who, to raise a loan, conceals the fact that he belongs to a society should be criminally liable. We do not think that any respectable persons would agree to such restrictions. And, as a general rule, we consider it impracticable for any ordinary credit society to attempt to clear off the outside debts of its members. It might be possible to draw up a scheme, in consultation with the moneylender, for the repayment of his loan by suitable annual instalments and for the society to see that these payments are made regularly; but this could only be done where the moneylender could be persuaded to agree and the members could be relied on to discharge their obligations punctually. In short, then, it seems to us that there is no short cut to success and progress can only take place step by step through education. We recommend that the credit society should confine its activities as far as practicable to short-term and intermediate loans for productive purposes, though it may take up later the question of advancing money for unavoidable purposes also; while long-term loans may be obtained from the land mortgage bank or land mortgage societies referred to hereafter. In the meantime, the credit society should endeavour to supervise the dealings of its members with moneylenders, and to see that members borrow from them only for certain specific requirements, and only after consulting the society. The latter should further see that interest is paid regularly from earnings, and draw up a scheme by which the principal can also be wiped off in a term of years. Progress along these lines may be slow, but it will be sure; and co-operation will have done something to better the condition of the people.

296. *Minor proposals in connexion with co-operative societies.*—Various other suggestions have been made from time to time to improve the work of co-operative societies. One of these is the reduction of the rate of interest charged by co-operative societies so as to undersell the moneylender. But a society which has to borrow at 12 per cent. can hardly lend money at less than 15 per cent. It may be urged that the banks, which borrow money themselves at 6 or 7 per cent., should be able to lend it to the societies at 9 per cent. instead of 12 per cent., but their expenses of management are proportionately high, and it is difficult for many of them to work at a profit even on a basis of 12 per cent. We do not therefore think that any reduction is possible, even if it were desirable; co-operative societies must wait to lower the rate of interest till they have accumulated sufficient funds of their own.

Others have suggested that co-operative societies would be more popular if the members, when they sever their connexion with them, received a portion of the reserve fund which they have helped to build up. We cannot recommend this proposal. The retirement of a few members might reduce the society to impotence. It is by means of the accumulations in this fund that a society can hope to become self-supporting, and its existence strengthens the credit of the society. Moreover, it protects the members against the enforcement of their joint and unlimited liability; for such responsibility cannot be enforced for the recovery of the reserve fund so long as the other liabilities of the society can be fully discharged. Lastly, the main object of the reserve fund is to unite the members and to create in them a spirit of co-operation, in which each one works not for himself alone but for the common good of all.

297. *Relations of members to each other and to the society.*—In fact, the members have not only to learn self-discipline and business habits themselves, but they must realise their responsibilities towards their fellow members and control them effectively. The societies should, therefore, ordinarily consist of persons of more or less equal status in life, though in special cases there should be no objection to the admission of non-borrowing members who do not carry on a moneylending business. To some extent this is secured by the adoption of the principle of joint and several responsibility. It is true that the fear of its enforcement does often prevent the better class cultivator from joining the society, and thus their wholesome influence is lost. But the inclusion of *samindars* or moneylenders in the same society with tenants invariably results in the latter being dominated by the former, and true co-operation becomes impossible. Besides, if this principle were abandoned, there

would be very little security, and it would be more difficult to keep out undesirable persons. We, therefore, consider that this principle must be retained, and its advantages brought home to all concerned by education and propaganda undertaken by co-operators, both official and non-official. We realise, however, that, in spite of all precautions, there will occasionally be undesirable members, bad payers and unwilling to submit to the control of their fellow members. In such cases immediate and drastic action is essential. There is a tendency at present to postpone action in the hope of improvement. This tendency is objectionable. Experience shows that in the majority of societies default often starts with one or two of the most influential members, and when no action is taken against them it spreads and becomes general. It is, therefore, of the utmost importance to take prompt action to effect recoveries. As societies under present conditions often lack the moral courage to do so, we recommend that the departmental staff should be empowered to apply for arbitration, as is the case in the Punjab. But the mere obtaining of an award is not enough; its prompt execution is the important thing. We regret to note that though these awards are recoverable as arrears of land revenue, the action hitherto taken to effect recoveries has generally been inadequate, which inevitably encourages deliberate default and dishonesty. The machinery for the recovery of these amounts, therefore, should be strengthened. Under the Act as it stands at present the society has not got any power of distraint; it has a prior claim to other creditors in respect of certain dues, after rent and revenue, but this can only be enforced after an award has been obtained. The MacLagan Committee had recommended as far back as 1915 that the prior claim should be converted to a first charge, but nothing has yet been done, and we repeat the same recommendation, but only for societies which are able to give their members full credit facilities including the liquidation of their outside debts. If the privilege were extended to other societies, the moneylender would certainly charge a higher rate of interest for accommodation to members of societies. We suggest, further, that in respect of advances for the purchase of cattle, etc., such societies should have a first charge not only against the cattle purchased, but against the agricultural produce as well. The transfer of the holding to a sub-lessee should also be impossible without the consent of the society. In certain other cases, too, the attachment of property before the award is actually obtained should be permitted in order to prevent dishonest transfers as soon as arbitration is applied for; the law on this point is not quite clear.

298. These demands for facilities of collection of dues arise from the fact that in the past many societies have incurred heavy bad debts.

To some extent these are due to the negligence of the societies themselves, and it may fairly be said that the adoption of coercive processes only emphasises the failure of co-operation. But the movement in the province is not in a flourishing condition; and a general spirit of laxity and indiscipline can only be cured by a vigorous attempt to recover dues from defaulters, so as to strengthen the hands of the more responsible and honest members of the societies and encourage them to regain their lost control over their fellow members.

299. There are, however, some who hold that all these devices will not carry the movement any further, and that the evil is too deep-rooted to be cured by such methods. They contend that in many cases default is due not to wilful neglect, but to unavoidable causes; that members are poor and live from hand to mouth; that though in normal years they can pay their dues, unforeseen calamities occur from time to time, which cause default, and matters cannot be put right again till there has been a series of good harvests. The remedy suggested by this school of thought is that co-operative societies should give up any attempt to fix instalments; that they should allow the members to draw money at will up to the limit of their normal credit or, in the alternative, that instalments should be made as small as possible and spread over a long term of years. We do not approve this line of argument. The probable result would be that when money is available it will be squandered instead of being used for the repayment of loans, so that the cultivator will be worse off than he is now. We suggest that the real remedy for this state of affairs is to encourage savings when harvests are good so that the same may be available when calamities occur, or other necessities arise.

300. It is to be regretted that members of co-operative societies rarely attempt to practise thrift. Even the payment of shares is usually regarded as payment of additional interest; whilst the dividend received on shares after ten years is either taken in cash and squandered, or adjusted against loans due. To enhance the educative value of shares we suggest that members should be encouraged to continue share payments even after ten years; it seems absurd to lay down that thrift should be practised for the first ten years and not thereafter. Further, the members should be encouraged to deposit anew their dividends; whilst we also recommend the payment of dividends before ten years, and that the shares be made partly withdrawable in emergencies, so that the members may realise more fully the benefit of accumulating shares. Similarly, the saving effected by the payment of a low rate of interest is so small that it is hardly appreciated; the experiment, which we understand is being tried, of charging the market rate of interest, and

crediting part of it to the savings of the members, so that it may be available to him in a lump sum when necessity arises, should be watched with interest. In short, more effort is required to encourage conscious saving among members of co-operative societies in years of plenty, for use in times of scarcity.

301. *Postponement of repayment.*—We further recommend that when crops are bad postponements should be given as soon as their need becomes apparent; the practice of granting postponements after the demands have fallen due must, however, be strongly discouraged. After the members of societies have been educated to a better sense of their responsibilities, the Punjab system might be introduced according to which instalments are fixed not on any fixed and uniform principle, but in accordance with the state of the prevailing harvest. This change requires a higher sense of duty among the members than is to be found in most societies at present; moreover, central banks would in such cases have to allow societies to take loans without any formalities up to the limit of their normal credit, instead of fixing instalments. The question of societies allowing a similar concession to their members would come thereafter; the members must be educated in the first instance to the use of this concession by training them not to borrow unnecessarily. We cannot recommend that villagers should be allowed to draw money up to the limit of their normal credit whenever they choose unless they are prepared to deposit all their income with the society; in which case payments should be made by the members whenever they earn or receive any money, however small its amount. Such petty payments are often discouraged at present because they give trouble to the accountant; we strongly deprecate that practice and emphasise the necessity of encouraging payments at all times, no matter how small the amounts. In fact, the village credit society should ultimately function as a village bank for its members; the members should deposit with it all their income, whenever and from whatever source it may arise, and draw from it whatever they need from time to time for their expenses. For this purpose the societies must keep till money, which they can advance in emergencies.

302. *Delay in making loans.*—One cause of the unpopularity of co-operative credit societies undoubtedly is the inordinate delay that takes place in the advancing of loans, the result of many formalities. Hence societies have developed the pernicious habit of taking as much as they can get once a year, and giving out the money to the members in the hope that it may last them the whole year; and the central banks have encouraged this tendency, because they earn more interest thereby and are not saddled with idle balances at certain seasons. The money

is usually spent as soon as it is received; and when other needs arise money is borrowed from moneylenders. We recommend that the procedure in connexion with the advances of loans to societies by central banks should be simplified as far as practicable, so that the *panches* may not be put to trouble and expense every time a loan has to be taken. To effect this a society may be allowed to draw on the central bank for a loan up to the limit of its normal credit. Again, the supervisor need not be required to recommend loans, except as regards bad societies. The petty exactions that still sometimes take place at banks can and should be put down as soon as possible. But the geographical difficulty—that of distance—cannot be easily overcome. The extension of the system of remittances by money order is of some help, but it involves much delay; it is recommended that the whole of the money order fees paid for such remittances may be refunded by government instead of only three-fourths as at present. It would also be a convenience if post office savings banks accounts could be operated on by means of cheques, and such accounts could be transferred from a head post office to any of its branches free of charge. Central banks might consider the possibility of arranging for itinerant accountants to go to certain fixed market places once a week to receive or to advance money as the case may be; they may also receive savings deposits from non-members so as to encourage the habit of saving. The system of appointing a local sub-agent for the bank has been tried in many cases, but with some honourable exceptions has not proved successful. The only solution seems to be the establishment of small central banks, with a radius of operations of not more than three or four miles, which may either be branches of the district bank or independent banks. They may draw their funds from the district bank or from local moneylenders. In fact, there seems to be no reason why the moneylenders in a particular locality should not unite to form such a rural co-operative bank, which would only lend money to the neighbouring co-operative societies and not to individuals; were it to lend to individuals, it would be simply a revival of the old *patti* societies and would share their fate. The moneylenders have at present to charge a high rate of interest as they often incur bad debts; but in dealing with societies they would not have such bad debts and could, therefore, deposit their money at comparatively low rates. Intensive propaganda among moneylenders would be essential before they would agree to this novel suggestion; but we learn that such a rural bank has been started successfully in one province. It has been urged that the moneylenders would not be able to agree who should manage the rural bank on their behalf, and that all but the manager would be thrown out of business. We are not impressed by this argument. The

moneylender would get his interest regularly, which he chiefly desires; and he could use his spare time on some subsidiary business. The real danger, however, is that the moneylenders would continue their private transactions with the individual members of societies. This can only be prevented by supervision and education. We consider that the suggestion should be given a trial as an experimental measure, though we cannot pretend to a feeling of optimism regarding its success.

303. *The moneylender as a co-operator.*—Such an experiment would doubtless involve a radical alteration in the attitude of co-operators towards moneylenders. We must deplore the fact that the co-operative credit movement should, from its very inception, have antagonised the village moneylender instead of trying to gain his sympathies and weld him into the co-operative organisation. He is an essential and organic part of the village community. As Mr. Darling has pointed out “kindly feeling prevailed between debtor and creditor till well into the sixties . . . ; it was only with the establishment of civil courts and the decline of the village community that the reign of the moneylender began”. Disputes between debtors and creditors used to be settled by local *panchayats* and the simple and the poor did not suffer, as they so often do now from the procedure of the civil courts, which, as the Agricultural Commission have pointed out, is both cumbrous and expensive. In short, the village community was strong enough to keep the moneylender in check; and there seems to be no reason why this state of affairs should not be restored through the instrumentality of co-operative societies. For this purpose it is essential that co-operators should carefully study the village moneylender and his methods, should adapt what is best in him and them to present-day requirements, and utilise his inherited knowledge and experience in bettering village conditions.

304. *Co-operative stores and sale agencies.*—The village *bania* does not merely lend money; he often supplies the requisites of the villagers and helps to sell their produce; in other words, credit is linked with purchase and sale. May it be that the failure of co-operative credit is due in part to the fact that it has attempted to work on a different system and has ignored the problems of purchase and sale? We recommend that experiments may be tried in the organisation of societies for the purchase of agricultural requisites and the sale of agricultural produce, along with credit societies, in one or two selected areas, which organisations should aim at the inclusion of the local *bania* and not at his exclusion. There are no doubt difficulties to be overcome. The ordinary agriculturist is an individualist, and the idea of pooling his own crop, (which he regards as good), with that of another, (which he considers inferior), does not appeal to him; and the first task of the society will be to improve the quality of

the produce and standardise it into two or three easily recognisable grades. The society itself should purchase the crop; it should aim at securing a better price than would have been obtained by each individual selling separately, and should take care to follow exactly the same method of sale as prevails in the locality, and to enlist the help of the local *bania*. This would simply amount to reorganising the prevailing system on a basis slightly more profitable to the producer, and cutting down the middleman's profit to its proper limit. Incidentally, also, this would help the credit society which would generally receive the sale-proceeds in place of the moneylender as at present. Such a society, however, must only deal with articles which are not perishable or easily damaged. Recently arrangements were made for certain societies to supply 50,000 maunds of sugarcane to a neighbouring mill, each society supplying its fixed quota at the fixed time: the experiment was moderately successful, and might be extended to other products such as *sann* (hemp) or cotton. In the latter case, however, the cultivators must be taught the best method of preparation of produce for the market; it is of the highest importance that there should be uniformity in length and quality of staple if the cotton is to sell to the best advantage and the society is to gain a reputation for good business. After individual societies have learnt good and honest business methods, they can combine into a central organisation and arrange for group marketing through a local expert: such gradual development would be better than starting with a central society.

305. *Societies of traders*.—At the same time co-operative societies of small traders should be formed, which would be advanced money on the security of the goods purchased by the members. Hitherto societies of traders have failed because they have been treated like agriculturists and their special needs and methods of business have not been considered; it will be necessary to study them with care before they are organised into societies. Thus they will become less dependent on the big men in the markets and will in their turn deal more fairly with the producer in the villages. These small traders fill an important rôle in village economy, and should not be regarded as middlemen to be eliminated, but as connecting links between the villages and the markets, who should be incorporated in the co-operative organisation.

306. For this work, we consider it necessary to create a marketing department. Its duties will include not only a study of all marketing problems, the organisation of trading societies, and assisting them in their dealings with *dallals*, *arhatias* and merchants. It would also endeavour to organise the buyer so that they may be able to take collective action to govern trade practices and eliminate dishonest dealings: and for that purpose it would assist in the establishment of open and regulated

markets, particularly for the sale of the principal crops. To this department would also be entrusted the administration of licensed warehouses⁽¹⁾; whilst it would also publish regularly in rural areas the prices of staple commodities ruling in the important markets of the neighbourhood. If these are established, both small traders and big producers will be able to manage co-operative commission shops similar to those in the Punjab; those suffering at the hands of commission agents and *dallals* will rally round such shops if efficiently organised and honestly run, which will also be useful alternatives to the existing trade organisations. Of course warehouse accommodation must be arranged, and when produce is left in the charge of the societies, there should be immediate payment of two-thirds or three-fourths of the probable price. Factories for converting agricultural produce into marketable articles, such as sugarcane mills or cotton gins and presses, belong to an advanced stage of co-operative development and cannot be thought of at present, not because of lack of finance, but on account of difficulties of management. Before undertaking such work, co-operators must try to solve the problems of cottage industrialists, which are somewhat similar but simpler. These will be considered in a later chapter along with the question of the formation of an industrial bank.

307. *The finance of co-operative societies.*—At present the members of societies do not get enough money to satisfy all their needs; but that is not so much because there is lack of money but because there is lack of security, and there have been so many bad debts in the past that banks and societies dare not advance more money. This objection would, however, not apply to loans advanced on the security of crops. At first the existing central banks would probably be willing to finance such undertakings, at all events to a limited extent; most of them can raise as much money as they want. When, however, the work of co-operative societies improves, when it becomes reasonably safe to advance to agriculturists amounts sufficient to satisfy their real needs, and the purchase and sale work develops, the banks will no longer be able to find the necessary money themselves. They will then have to draw on the resources of joint-stock banks. We think it will be possible for co-operative banks and societies, after they have acquired a reputation for working along sound business lines, to make arrangements with commercial banks, by which they will be allowed to hold grain as security as trustees on behalf of the commercial banks and get sufficient accommodation against the same.

308. *Provincial co-operative bank.*—In order to enable co-operative banks to get into closer touch with the money market and to link them-

(¹) See para. 270.

seems up with the reserve bank on the one hand and commercial banks on the other, the establishment of a provincial co-operative bank seems to be essential. It has been objected that the functions of such a bank can only begin when the co-operative movement is fully developed; that in this province it is still of feeble growth; and that the mere starting of a bank would not stimulate growth. It is undoubtedly true that the movement in the province is backward, and does not at present need much capital. But the supply of money is not the only function of a provincial bank. It must, *firstly*, co-ordinate and control the finances of co-operative banks, and provide a wider field for the investment of their money. *Secondly*, since most co-operative banks are ignorant of banking principles and methods, possess incompetent staff, and are badly in need of sound advice on these and other financial matters, one of its most important duties at the present stage will be to guide, direct and control the financial transactions of other co-operative banks.

309. *The need for improved audit.*—The recent failure of a co-operative bank at Sandila shows that increased control is needed over many banks, and that audit must be made more effective. The present law governing the audit of societies is not clear; the responsibility for audit rests on the Registrar who has to appoint the auditors, but there are no instructions laying down what the auditor is to do if he finds the balance-sheet of a bank or society to be incorrect. We suggest, *firstly*, that the auditor should be definitely empowered to correct errors in the balance-sheet, and that no society should publish its balance-sheet until the auditor has certified it to be correct. In case the society disagrees with the auditor, the matter should be referred for decision to the financial adviser (mentioned below), whose decision will be final. *Secondly*, the Act should also make it possible to enforce other audit suggestions and, if these are constantly ignored, it should provide for the appointment of a committee of inquiry, and the temporary supersession of the management which would be entrusted to persons nominated by the government. *Thirdly*, it should be made clear, either by inserting a penal provision in the Act or otherwise, that the managing committees of banks and societies must act with the prudence and diligence of ordinary men of business, and are personally responsible for any losses arising through neglect of the Act, the rules, the byelaws or other specific instructions issued by the Registrar, who would be guided in such matters by the advice tendered to him by experts. *Fourthly*, as recommended by the Oakden Committee, sections 50-A and 60 of the Bombay Act, which deal with wilful neglect and the wilful furnishing of false information

by a society, officer or members should also be adopted. *Lastly*, with the object of avoiding the employment of incompetent or undesirable persons on the office staff of banks, we recommend that such staff employed by banks should be licensed by the provincial bank; that no one who does not possess such a licence should be employed; and that after such inquiry as may be deemed necessary such licence be liable to cancellation at any time.

310. *The financial expert.*—If the provincial bank is to discharge its duties effectively, it must have the services of a banking expert as its general manager. The same individual should also serve as financial adviser to the co-operative department. His functions would be to train and supervise the work of the existing auditors, to carry out some super-audit himself, to examine audit notes and pass orders thereon, to study and report on the financial condition of the banks, and to give advice both to banks and to the department on technical financial matters. He would also be primarily responsible for bringing the provincial bank into touch with the commercial banks and the money market when required, for controlling lending among banks, for examining their banking and financial transactions and controlling their staff on behalf of the provincial bank. The audit of the provincial bank itself should be entrusted to certain special government bank examiners whose appointment is recommended elsewhere. We further recommend that the reserve bank should guarantee a suitable subsidy to the provincial co-operative bank at a low rate of interest, with the object of helping in the task of credit distribution among agriculturists. The proposal has its parallels elsewhere; in France the Bank of France has advanced a permanent loan of roughly two million pounds, without interest, to the Credit Agricole which is the apex co-operative authority in that country; whilst it also pays to the Credit Agricole a sum of about £ 120,000 annually as a gift from its own profits. Appendix II to this chapter contains our views regarding the constitution of a provincial co-operative bank.

311. *Absence of competition between co-operative and other banks and bankers.*—If a provincial bank is started along these lines, we do not anticipate that it will compete with the joint-stock banks; indeed, it will probably help to bring the latter into closer touch with co-operative banks. We have it on the authority of the Secretary and Treasurer of the Imperial Bank of India that no competition at present exists between co-operative and joint-stock banks.^(*) Two-fifths of the total working capital of co-operative societies is their own money in the shape of shares and reserve and other funds. For the rest they depend almost

(*) Evidence, Vol. IV.

entirely on fixed deposits, which are obtained chiefly from villagers or others who do not ordinarily make deposits in joint-stock banks and would otherwise have been hoarded or used for the purchase of land. In fact, an increase of deposits would be welcome alike to joint-stock and co-operative banks; and even if the latter were to open savings accounts there would be no appreciable competition. As for the lending of money, co-operative banks only advance to societies situated chiefly in villages where no joint-stock bank could operate. The two, indeed, supplement each other, for the demand for agricultural credit is usually strongest when the commercial money market has surplus funds available. To what extent this state of affairs would continue if co-operative societies develop and undertake the marketing of produce it is impossible to say. Such advances at present are, however, relatively small; and even if the work expands it would be chiefly in villages, to which joint-stock banks seldom penetrate.

312. Nor does there appear to be any serious competition between co-operative banks and indigenous bankers at present. As the Registrar points out: "Many of them are directors of co-operative banks, while some of the bigger bankers have also placed money in fixed deposit with co-operative banks; a few act as treasurers and keep the cash balances of the bank in current account with themselves, occasionally allowing a nominal interest on the same. On one or two occasions they have kept the surplus money of banks in deposit at a favourable rate of interest, till a better field for investment could be found. In short, in many cases co-operative banks depend for their very existence on the help and support received from indigenous bankers and are even sometimes run by them."(*) In the latter case, however, there is the danger that they will pay more attention to the purely moneylending part of the work, ignoring the dissemination of co-operative principles or the encouragement of thrift.

313. *Encouragement of thrift by investment.*—We are of opinion that thrift can best be encouraged by the formation of special societies for the purpose, particularly in towns; but such societies are at present handicapped by their ignorance of remunerative investments. We recommend that co-operative banks should give special terms and facilities to such societies. They should also encourage saving directly, by offering attractive terms for fixed deposits and additions to them, however small. We do not, however, recommend the opening of current accounts in co-operative banks, since it would then be necessary for them to keep large

(*) Evidence, Vol. III, p. 417.

liquid cover. In fact, surplus money is one of the great problems of co-operative banks at present; and the demand for "expansion, more expansion, and still more expansion" is partly due to a desire to find an outlet for this money. It is, however, generally realised now that societies cannot be organised to suit the convenience of banks; and we recommend that banks with surplus funds should, on the one hand, decrease the rates of interest they offer to depositors and, on the other, reinvest their surplus in government securities or in other co-operative banks, even at a rate lower than that at which it is borrowed; for Rs. 10,000 raised at 6 per cent. and reinvested at $5\frac{1}{2}$ per cent. means a loss of only Rs. 50 in the year, but if left idle causes a loss of Rs. 50 per month.

314. *The treatment of cash balances and reserves.*—When co-operative banks keep large cash balances in hand, there is always danger of these amounts being misused by treasurers or even embezzled. Cash balances should, therefore, be kept with joint-stock banks or other reliable indigenous bankers where they exist; but there should be no objection to the government treasurer acting as the treasurer of a co-operative bank, and any orders which prevent this should be modified. But whatever the arrangements, banks should maintain small cash balances and should invest their surplus money. Investment in government securities has the additional advantage that money can be raised, whenever required, by pledging them with joint-stock banks. The practice of pledging the reserve fund is dangerous and should not be permitted, save in exceptional circumstances, to meet a special emergency and for a limited period. We approve of the policy of keeping the reserve fund of banks outside the movement; but if such funds are pledged and the money borrowed is used as ordinary working capital, the whole object of investing outside is defeated and the money of depositors is in danger. We also hold strongly that banks should make adequate provision for bad and doubtful debts; the longer a loan has been overdue, the less the chances of its recovery, and a bank must take that fact into consideration when preparing its balance-sheet. We recommend the system of crediting recoveries to principal first and to interest afterwards in liquidated societies, and consider that the same system should prevail even in working societies when the overdue interest is heavy and no payments have been credited towards principal for two or three years. We further recommend that interest earned but not due should be excluded from the profits for purposes of distribution of dividend, just as all overdue interest is excluded at present. Co-operative banks, though they are not government institutions, are generally regarded as being under the special patronage and supervision of government; and accordingly they ought

to prepare their accounts in such a way as to reveal their real condition to the public. Moreover, they already receive various concessions from government and the tendency is to ask for more.

315. Proposed concessions.—The chief additional concession proposed is the exemption of co-operative banks from income-tax. The income-tax authorities argue that the total tax paid by co-operative societies in the province is less than Rs. 1,000, and that so small a concession could be of no material importance to the movement. On the other hand, it is argued that since the sum is so small, Government can afford to forgo it, if thereby it can show its sympathy with the movement and remove an unnecessary feeling of irritation. Co-operative banks, unlike other banks and companies, are compelled by law to invest their reserve fund in government securities; as this is a legal obligation imposed by Government, it is but reasonable that Government should give a corresponding concession by exempting such investments from income-tax. The question of the interest derived from money lent to, or deposited with, one bank by another is not free from difficulty. Such loans and deposits are really part of the lending bank's profits and should be exempt; such loans are, however, held to be "outside investments" and therefore liable to income-tax. This must definitely discourage lending between banks; whilst it is difficult to understand why a loan given to a society should be held to be exempt, and one made to a sister institution should be liable. We recommend that the principle of exemption should be simplified, and that all the income of a co-operative society should be exempt from income-tax. All payments made by a society to individuals by way of dividend, interest, bonus, etc., will, of course, remain liable.

316. Other concessions suggested are:—

- (1) that the debentures of provincial banks should be included in the list of trustee securities;
- (2) that the Court of Wards and District and Municipal boards should be permitted to deposit their money in co-operative banks;
- (3) that co-operative societies should be exempted from court-fees as they are from stamp duties; the occasions on which they have to pay court-fees are not frequent, but they are often a heavy item in the accounts of those societies which can least afford them;
- (4) that the present restrictions against the advancing of *tagavi* to co-operative societies should be removed and that *tagavi* should be given to or through them whenever practicable.

317. We strongly recommend the last proposal: co-operative societies are the best agency for *tagavi* distribution. We have no objection to the other three proposals. But we do not attach great importance to any of these concessions; they would not appreciably help the growth of the co-operative movement. What is wanted most in the first instance is a careful study of local conditions and problems; this should be followed by organised and systematic development in selected areas enlisting local support and adopting or adapting local methods as far as possible. We recommend that development should be gradual, starting with thrift, rural reconstruction and better living, then extending to credit for productive purposes and, last of all, to land mortgage societies for long-term unproductive loans; while the problems of the supply of requisites and the sale of produce should also be taken up at the same time. We suggest that 15 or 20 villages with a population of about five to ten thousand clustered round a small market town or village should form an administrative unit. In such an area, every village should have at least two co-operative societies, one for credit and allied activities and one for better living; and there should be a small rural bank in the market town. Other rural activities in such directions as sanitation, agricultural improvement, education, etc., should also be carried on under the guidance of a special supervisor, and the superior control of inspecting experts belonging to the various development departments. The economic condition of the villager cannot be improved unless his problems are tackled from all sides at the same time; real progress will not take place if attention is devoted to banking alone, or to agriculture alone, or to any single aspect of the life of the villager. Official help and guidance are essential and will be so for a long time to come. We hold continuity of policy to be absolutely vital, especially as regards the development of co-operation. For this purpose we recommend that there should be a continuous stream of officers under training so that there may be no break of policy when an officer leaves the department. Ultimately, the aim must be to train co-operators to manage their own affairs themselves. The object of official effort should be to make itself unnecessary; its success must be judged by the speed with which it achieves that object. But the time for its disappearance will not come till the co-operative society stands firm on foundations that have been well and truly laid.

APPENDIX I

Table showing the progress of the co-operative movement in the United Provinces since its inception.

Year.			Total number of societies.	Total member- ship of pri- mary societies.	Total working capi- tal of societies.	Total owner capital of societies
					Rs.	Rs.
1904-05	..	..	159	12,215	62,094	..
1905-06	..	..	123	10,234	1,32,188	47,013
1906-07	..	..	170	17,404	10,04,238	1,87,612
1907-08	..	..	187	38,983	21,70,142	2,70,481
1908-09	..	..	369	45,067	32,56,557	4,70,186
1909-10	..	..	789	49,968	37,42,453	5,63,862
1910-11	..	..	1,258	63,035	48,60,229	7,03,169
1911-12	..	..	1,946	76,812	65,79,656	10,25,453
1912-13	..	..	2,530	94,042	86,67,022	13,58,282
1913-14	..	..	2,807	108,023	1,14,18,637	17,92,006
1914-15	..	..	2,962	107,781	1,17,49,144	23,15,001
1915-16	..	..	3,199	112,251	1,20,34,661	23,47,691
1916-17	..	..	3,246	109,238	1,30,40,885	33,76,462
1917-18	..	..	3,087	97,036	1,13,00,825	36,31,206
1918-19	..	..	3,406	98,527	1,18,40,890	40,70,371
1919-20	..	..	3,721	97,086	1,14,14,760	42,33,713
1920-21	..	..	4,493	110,620	1,29,57,561	46,04,540
1921-22	..	..	5,137	123,113	1,44,96,375	51,62,101
1922-23	..	..	5,509	134,423	1,61,63,539	57,59,786
1923-24	..	..	5,755	144,432	1,67,19,960	64,34,263
1924-25	..	..	6,000	155,149	1,80,57,369	72,05,319
1925-26	..	..	6,236	158,719	1,88,49,170	77,04,460
1926-27	..	..	6,242	163,163	1,97,75,823	82,92,232
1927-28	..	..	6,063	* 159,417	2,01,86,947	86,04,940
1928-29	..	..	5,907	* 151,785	2,17,59,786	89,73,746

* A large number of fictitious members were removed.

APPENDIX II.

Proposed Scheme for a Provincial Co-operative Bank for the United Provinces.

1. *Objects.*—The objects of the provincial bank are :—

- (a) to guide, direct and control the financial transactions of its members and advance them loans on the security of co-operative paper;
- (b) to attract deposits on more favourable terms than its members can obtain individually;
- (c) to balance surpluses and deficits among its members;
- (d) to borrow from commercial banks when necessary, and with the sanction of the Registrar, on the security of co-operative paper or otherwise;
- (e) to encourage thrift, savings and self-help among its members.

2. *Constitution.*—The membership shall be confined to (a) central societies in the province, hereinafter called member-societies, (b) such individuals as purchase shares in the bank, hereinafter called preference shareholders.

3. *Capital.*—The nominal capital shall be twenty lakhs of rupees.

4. *Shares.*—(a) Ordinary shares shall be held by member-societies in the province and preference shares by individuals; they shall not be withdrawable;

(b) The value of a share shall be Rs. 100;

(c) Each member-society shall be required to purchase one ordinary share of the bank for every Rs. 800 or fraction thereof held in its share capital and reserve fund (owned capital);

(d) For every share purchased Rs. 25 shall be paid on application and Rs. 25 more on call within three months;

(e) The balance of Rs. 50 shall remain as a reserve liability which may be called up in emergencies with the sanction of the Registrar;

(f) Interest will be payable at 9 per cent. per annum on arrears of called-up shares overdue;

(g) Shares remaining unpaid for over three months after the due date may be forfeited by the Provincial Bank and sold at the risk of the shareholder;

(h) Forfeited shares may be sold or re-allotted either to the original holder or to other holders;

(i) The Board shall have power to cancel the forfeiture if arrears are paid off before the shares are sold, re-allotted or otherwise disposed of.

5. *General meetings.*—(a) The supreme authority shall be vested in a general meeting of delegates from member-societies and preference shareholders;

(b) Each member-society will, by a resolution of its executive committee, nominate one of its directors as a delegate to the general meeting of the Provincial Bank;

(c) The Registrar shall be the *ex officio* Chairman;

(d) Every delegate present shall have one vote, but delegates representing member-societies who are in arrears of share-calls will not be entitled to vote;

(e) The Chairman shall have a casting vote;

(f) To constitute a quorum, there shall be delegates from at least one-third of the member-societies and holding one-fifth of the share capital;

(g) The general meeting will be held at least once a year (probably at the same time as the co-operative conference);

(h) Extraordinary or special general meetings may be called when necessary.

6. *Board of Directors.*—(a) The Board of Directors will carry on the business of the Bank;

(b) It shall consist of—

(1) The Registrar, as Chairman;

(2) Six representatives of the member-societies holding 20 shares in the Provincial Bank and three preference shareholders. They shall be elected by the general meeting and hold office for one year;

(3) Three persons unconnected with the co-operative department nominated by the Government for their special knowledge of banking from the business and banking community;

(4) One representative of the United Provinces Co-operative Union nominated by the executive committee of the Union and holding office for one year;

(c) The Board will meet twice a year or more often if the business so requires;

(d) A fortnight's notice shall be necessary for the meeting of the Board;

(e) Five members will form a quorum;

(f) All matters will be decided by a majority of votes;

(g) The Chairman shall have a casting vote also.

7. Qualifications for Directorship.—Every member of the Board of Directors of the bank shall vacate his office—

(a) If he becomes insolvent;

(b) If by reason of mental or bodily infirmity he becomes incapable of acting;

(c) If (except with the consent of the Board of Directors) he be absent from the Board's meetings for more than two consecutive meetings;

(d) If the central society of which he is a director is liquidated or ceases to hold the required number of shares to qualify him for the office, or if he himself ceases to be a director of the same;

(e) On his resigning office by notice in writing to the Board of Directors.

8. Managing Committee.—(a) The Managing Committee will carry management of the affairs of the bank;

(b) It shall consist of four persons elected by the Board of Directors from amongst the directors of whom one must be a delegate of a member-society, one shall be a preference shareholder, and one an officer of government, in addition to the Chairman of the Board of Directors who shall be Chairman of the Managing Committee *ex officio*;

(c) It shall meet every month;

(d) It may delegate some of its administrative powers to the Chairman and some to the Manager, but whatever is done by them shall require the confirmation of the committee;

(e) In their conduct of the affairs of the bank, the executive committee shall exercise the prudence and diligence of ordinary men of business and shall be responsible for any loss sustained through acts contrary to the law, the notified rules or these byelaws.

9. Borrowings and lendings.—(a) The Provincial Bank may raise deposits from individuals at suitable rates;

(b) It may accept the surplus money of members at a suitable (low) rate of interest;

(c) It will ordinarily lend money to members only; provided that it may invest surplus funds in such manner as it may consider suitable;

(d) Its lending rate will be as low as practicable.

10. Guidance and control.—(a) The Provincial Bank may fix the rate of interest to be paid by member-societies on deposits raised by them and also regulate their volume and nature;

(b) It will normally allow a member-society to raise deposits only in its own area of operations. But a member-society may accept deposits from other areas with the sanction of the Provincial Bank;

(c) Lending between banks will be forbidden;

(d) It will require the submission of reports and returns and will be entitled to inspect the books of the members;

(e) It will license the staff employed by member-societies and cancel such licences. It will prevent the employment of unlicensed persons by the member-societies;

(f) It will have power to impose a penalty in case of wilful default by member-societies to carry out its instructions.

11. *Profits.*—(a) Dividends on shares will be limited to 7 per cent., with the proviso that in the case of preference shareholders 5 per cent. cumulative dividends may be given;

(b) The rate of dividend recommended by the Board of Directors may be reduced by a general meeting, but not enhanced by it.

CHAPTER VII.

THE PRESENT LEGAL SITUATION IN RESPECT OF DEBT.

318. *The Bundelkhand Land Alienation Act**.—As far back as 1882 a measure was passed entitled the Jhansi Encumbered Estates Act, the general object of which was to restore to solvency the proprietary body in certain parts of Bundelkhand. This Act did not place any restrictions on the right of the proprietors to transfer their land. Inquiries were made in 1901, which showed that the indebtedness of the proprietary body affected was only 4½ lakhs less than it had been in 1877, when remedial measures were first discussed. This and other considerations ultimately led to the passing of the Bundelkhand Land Alienation Act of 1903, which was based on the Punjab Alienation of Land Act of 1900. The case for legislation as it stood at the time may be stated briefly thus.

In Bundelkhand the great majority of all proprietors were agriculturists in the true sense of the term, being directly employed in the cultivation of land. At the same time cultivators were relatively scarce. The agricultural classes were sharply distinguished from the non-agricultural, whilst the moneylenders taken as a whole formed a separate class by themselves. The proprietary body was deeply indebted, and transfers between agriculturists and non-agriculturists, notably moneylenders, had been frequent. Such transfers led to several undesirable results. *Firstly*, the substitution of a Vaish for a Rajput meant the loss of a cultivator in a tract where cultivators were scarce, and might, and often did, lead to serious losses of cultivated area. *Secondly*, such transfers from the agricultural to the non-agricultural classes were disastrous for the tenants, who were then placed in the power of landlords who regarded land merely as a commercial investment, and oppressed and rack-rented them. *Thirdly*, such transfers were a source of danger, since they resulted in the dispossession of a large number of ancestral proprietors, who became turbulent and discontented, and were apt to blame the State for their misfortunes.

319. The general effects of this Act may be summarised thus:—

- (1) There has been a reduction in the supply of credit and an increase in its price.

* See also page 355.

- (2) This reduction of credit has led directly to a fall in land values.
- (3) There has probably been a considerable reduction in the total volume of debt; at all events it is lower in this tract than in any other part of the province.
- (4) The non-agricultural moneylender has been replaced to a considerable extent by the agricultural moneylender. Of the total debt in Bundelkhand 42 per cent. is due to the latter and 44 per cent. to the former.
- (5) Transfers have been for the most part, (though not entirely, since there are means of evading the law) from one agriculturist to another.
- (6) Even in Bundelkhand, where most landlords are small cultivating proprietors, some are richer than others. It seems inevitable that as a result of this Act the richer landlord has increased his possessions at the expense of the poorer.
- (7) It may be doubted whether the Act benefits the tenant. No landlord oppresses his tenants so ruthlessly as the small owner, "himself struggling for a bare subsistence."

In theory, of course, this Act runs counter to all accepted principles regarding rights of ownership, and has, so far we are aware, no parallel in any other country in the world, save in certain other parts of India. In practice, on balancing the results described above, we are inclined to doubt whether the advantages derived from the Act outweigh its disadvantages, even in Bundelkhand. We are not prepared to go so far as to recommend its repeal though some of us are inclined to suggest that the possibility of repealing it be examined. On the other hand, we are certainly not prepared to recommend its extension to any other part of the province. In another chapter,⁽¹⁾ we have given the most recent statistics available relating to transfers of land between agricultural and non-agricultural classes, and stated our opinion that the figures as they stand would not justify such legislation. We here state briefly the case against its extension from other points of view; and proceed by means of a comparison of the facts, as they stood in 1903 in Bundelkhand, with the facts as they stand now in the rest of the province.

(1) In the Bundelkhand of 1903 a transfer from an agriculturist to a non-agriculturist meant the loss of a cultivator in a tract where cultivators were scarce, and generally led to reduction of cultivation. In the rest of the province at the present day the demand for land is so keen that the same difficulty could not possibly occur.

(¹) Chapter IV, para. 241.

(2) It was held in 1903 that a transfer of land from an agriculturist to a non-agriculturist led to the oppression of the tenants, because the new landlord regarded his land merely as a commercial investment. Whether in 1903 or in 1930, whether in the circumstances of Bundelkhand or of any other part of the province, we regard this statement as plainly absurd; and could, if necessary, quote many experienced officers in support of our view. We have already offered some general observations on this point.^(*) It may or may not involve loss of traditional sympathy between landlord and tenant, but it does imply reasonably good management. Just because the non-agriculturist landlord is a man who regards land as a commercial investment, he will ~~not~~ harass his tenants. The tenants may be the moneylenders' 'milk line'; but no dairy was ever run at a profit with starved cows. We repeat that the exchange of a non-agricultural for an agricultural landlord generally, perhaps more often than not, means a substitution of a good for a bad landlord.

(8) In 1903 transfers from agriculturists to non-agriculturists were regarded as causing discontent amongst the expropriated landlords, leading to dissatisfaction with government. It is doubtless true that a man who has sold his land often blames not only himself and his rapacious creditor, but also the government under whose administration this evil has come upon him; for in the East the State is still regarded by the masses as all-powerful, and as the direct cause of all results, whether good or bad. Especially will he blame the government if his property has been sold up by the order of one of government's courts. But the fact that alienations of land are restricted to cases where both parties are agriculturists will not lessen that discontent. A dispossessed Rajput may feel bitter at seeing his land in the possession of a Vaish moneylender, whilst he himself works as a labourer on somebody else's land; but we doubt whether his feelings would be much less bitter if the transferee were a Kurmi or a Chamar. The cause of the bitterness is the fact that he has had to give way to a man whom he has always regarded as his inferior; he will not be reconciled to his lot merely because his supplanter happens to know how to drive a plough.

(4) Whereas in Bundelkhand most landlords were peasant proprietors who themselves cultivated land, in the rest of the province there are many wealthy landlords who are not, strictly speaking, agriculturists at all, since they do not cultivate but merely collect rents. Are such landlords to be classed as agriculturists or non-agriculturists? Such men, and they form a powerful body, would certainly resent being

(*) Chapter IV, para. 237.

classed as non-agricultural; yet if they are allowed to purchase land freely, the inevitable result will be the gradual disappearance of small proprietors and an increase in the number and size of large estates. We have seen reason to believe that the richer land-owner has to some extent swallowed the smaller even in Bundelkhand; in the rest of the province, were a Land Alienation Act applied to it, the same result would occur, but many times magnified.

320. In short, we hold strongly that there is no case for introducing a Land Alienation Act in any other part of the province. It is not warranted by the figures of transfer between agriculturists and non-agriculturists, and in the circumstances of the province it would have most undesirable and even dangerous results.

321. *The Transfer of Property Act.*—Under the Transfer of Property Act, a mortgage of land must be the subject of a registered deed. An equitable mortgage is one made by depositing the title of the mortgaged property with the mortgagee, and such a mortgage is legal only in certain port and presidency towns. In this province it is not possible to raise a loan on the security of title-deeds. However short the term of the advance to be secured, the mortgage which secures it must be registered, which means both delay and additional charges, charges which might amount, if the period of the loan is short enough, to more than the interest charges; in other words, the price of credit would be increased by over 100 per cent. We do not suggest that the registered mortgage should be abolished; but we recommend that equitable mortgage by deposit of title-deeds should be made legal in this province, as it is in presidency and port towns and also in the Punjab, to which province the Transfer of Property Act does not apply.

Again, there are many mortgagees in the province, but they cannot use their mortgage-deeds as security on which to borrow money. We recommend that the law should be amended so that the mortgagee can transfer his interest in the mortgage to his creditor by a mere deposit of the title-deed.

Our third recommendation relates to usufructuary mortgages, and is one already made by the Royal Commission on Agriculture, whose words we quote:—"No usufructuary mortgage of agricultural land should be permitted by law unless provision be made for an automatic redemption within a fixed period of years, of which twenty should be the maximum."(*) Every usufructuary mortgage should, in our opinion, bear on its face the date of its final redemption.

(*) Report of the Royal Commission on Agriculture in India, 1928, page 419.

322. *The Insolvency Act.*—Many witnesses have complained that the present insolvency law puts a premium on fraudulent bankruptcy. The dishonest debtor finds little difficulty in inducing a court to declare him insolvent: or, once declared insolvent, in inducing the receiver appointed to administer his property to record incorrectly, or actually to withhold, realisations and recoveries. In either case the creditor is defrauded of his rightful dues. Such complaints though not universal contain a good deal of truth.

But the defect, in our opinion, is not in the law itself but in its administration. We believe that the existing provisions, if carefully enforced, are sufficient to deter a debtor from resorting to insolvency as a means of deceiving his creditors or securing a preference to some creditors as against others. The judges, we are informed, are overburdened, and are apt to regard other branches of their work—civil and criminal—as more important. The remedy is possibly the appointment of special insolvency judges, where insolvency petitions are numerous; or in the alternative that judges should be provided with some sort of expert agency to investigate the facts when such petitions are filed.

323. *The Usurious Loans Act.*—We were specially desired to enquire into the working of the Usurious Loans Act of 1918: but we have received little evidence on this matter, and that evidence is conflicting. The Agricultural Commission has stated that the Act is “a dead letter in every province,” but admit that they received no evidence from civil judges. Two of our most valuable judicial witnesses,—one a judge of the High Court, the other a small cause court judge who by reason of the nature of his work is constantly dealing with cases of debt—, agree in denying this statement. The latter asserts that he himself and his brother judges constantly apply the Act: the former says, in explanation of the fact that the Act has not been so freely used as might be expected, that the limitation of registered mortgage-deeds executed before 1918 has not yet expired. This refers to a provision in the Act which restricts its operation to suits for recovery of loans made, or for the enforcement of securities taken, after the commencement of the Act, with the result that the Act cannot be applied to loans made or securities taken *before* its commencement. On the other hand, we have received complaints that the Act is sometimes used to the detriment of the creditor, because judges are apt to reduce the rate of interest even when it cannot be regarded as usurious. From the practical point of view, indeed, the principal defect of the Act appears to be the absence of any definition of usury. We must admit that it is well-nigh impossible to frame such a definition; for the fixation of a rate of interest depends on numerous factors which vary from case to case according to their merits, and a rate which is fair in the

circumstances of one loan might amount to rank usury in the case of another. Nevertheless, the absence of this definition must inevitably result in unequal treatment of creditors, because every judge will administer the Act according to his own idea of what constitutes usury.

On the basis of the evidence before us we can only conclude—

- (1) that the Act is used more freely than we had been led to expect;
- (2) that owing to the important defect which we have mentioned, it is sometimes misused to the detriment of the creditor;
- (3) that as time passes and the number of loans and securities of an earlier date than 1918 terminate, its use will increase.

324. *Discretion of courts to allow interest after suit.*—When a plaintiff files a suit it is entirely in the court's discretion to allow or refuse him interest after the date when the suit was filed. The court may allow the same rate of interest as is mentioned in the bond; it may reduce that rate or even disallow interest altogether. Again, it may reduce the rate for the entire period from date of suit to date of recovery, or from date of decree to date of recovery. Usually it allows only 6 per cent. from the date of suit to the date of recovery, even though a higher rate of interest is stipulated in the agreement. The courts occasionally refuse to allow even *ad litem* interest. Generally, courts allow the stipulated rate of interest for the period preceding the suit, unless that rate is usurious. We can find no justification for action of this kind. If the borrower has agreed to pay interest at a certain rate, he should continue to pay that rate to the date of recovery. As matters are, the borrower often deliberately avoids satisfying a decree so as to get the benefit of the lower interest fixed by the court. We consider that the Civil Procedure Code should be so amended that courts no longer have discretion to reduce the stipulated rate of interest after the date of the suit, unless that rate is "usurious."

325. *Delay in suits and in realisation of decrees.*—It takes a long time to get a decree, and a longer time to execute it. This naturally affects the cost of credit. We admit that a judge must be fully satisfied before he grants a decree. We admit that a borrower's right to adduce evidence in support of his case cannot be limited. Nevertheless there is considerable delay in the disposal of cases; how far that delay is avoidable we are not in a position to say, but we consider that the possibility of avoiding it should be examined. If it prove unavoidable, the obvious remedy is to increase the number of judges.

326. *Dishonesty of lower court officials, and defendants.*—We have received many complaints of the dishonesty of lower court officials, such as *ahlmads*, bailiffs and process servers. They annoy the plaintiff by their exactions; for a consideration, they are willing to help the defendant to evade the process of law, by such means as failing to serve summonses, by creating difficulties in the attachment of property, or by giving information of an impending arrest or attachment. These complaints may be exaggerated: but we bring them to the notice of judicial authority. Finally, defendants often raise, or cause to be raised, purely vexatious objections with the object of prolonging proceedings. We consider that judges should be armed with greater power to prevent and punish such abuse of the facilities provided by law.

327. *Fixing rent and revenue legislation.*—The laws which govern revenue and rent are:—

(a) the United Provinces Land Revenue Act of 1928,

(b) the Oudh Rent Act of 1886 (as amended in 1921 and 1926),

(c) the Agra Tenancy Act of 1926.

(a) *The United Provinces Land Revenue Act.*—The chief feature of the new United Provinces Land Revenue Act is that it has put settlement operations on a statutory basis, and has imposed limits of various kinds, all of which have the effect of greatly reducing the burden of assessment.

(b) *The Oudh Rent Act of 1886* has undergone several important amendments in 1921 and 1926. The amendments grant statutory rights for life to a tenant and to his heir for five years after his death, and limit the landlord's power to enhance rent. Under the old Act a landlord could eject a tenant or enhance his rent after a period of seven years. The result was that the landlord usually ejected the tenant unless he accepted an enhancement. Under the amended Act not only is the tenant assured that he will remain undisturbed in his holding during his lifetime, and that his heir will hold it for five years thereafter, but he also knows that his rent can only be enhanced once in every ten years, and then to a strictly limited extent. In every tenth agricultural year a special officer is appointed "to propose fair and equitable rates of rents for statutory tenants." This year is called a "roster" year. These rates "are based on genuine, adequate and stable rents which are paid by substantial tenants who depend upon their holdings for their livelihood and can be paid without hardship over a series of years, due regard being paid to movements in prices and the letting value of land." Different rates are fixed for different soils according to the soil classification and the circles demarcated at the

previous settlement: if no demarcation was then made, the special officer makes one in the manner prescribed for settlement.⁽⁴⁾ In other words, so much of the ordinary settlement procedure is carried out as is necessary to ascertain the extent to which and the direction in which rents have moved since the last roster year, and to determine on this basis what rents are fair and equitable, which rents are then used as a measure of enhancement. In these circumstances the fact that the maximum enhancement has risen from 6½ per cent. to 33½ per cent. is a matter of small moment, all the more so that if the maximum enhancement is decreed then it may be spread over any number of years not exceeding five by yearly increments.

(c) *The Agra Tenancy Act*.—The Agra Tenancy Act closely resembles the Oudh Rent Act. It grants a statutory life tenancy to every tenant who was formerly classed as a tenant-at-will, with a five years' remainder to his heir after his death. Tenants that hold a right of occupancy at the time when the Act was passed remained undisturbed, and it is no longer possible for a tenant-at-will to acquire an occupancy right by continuous cultivation over a period of twelve years. On the other hand, a tenant can now purchase an occupancy right from a landlord, or receive it from him as a gift. Enhancement of a statutory tenant's rent is only possible after twenty years, i.e., once during the ordinary life of a settlement, and is subject to the same "roster" limitations as have been described above.

328. *Effect of the new legislation on credit*.—The new Tenancy Acts have affected the credit both of landlords and of tenants, but in different ways. Under the old Act, though it was difficult for a landlord to enhance an occupancy tenant's rent, yet he could always prevent a tenant from acquiring an occupancy right by ejecting him before he had completed a twelve years' tenure. Further, on the expiry of any tenancy, either by ejectment or from any other cause, he could demand an enhanced rent without limit or hindrance; and since there was a great demand for land, the landlord could invariably get the enhancement which he demanded. Under the new Act, however, the statutory tenant is secure in his holding for the rest of his life, and his heir for five years thereafter; whilst enhancement can now only be made at lengthy intervals and is strictly limited in extent. These changes have had the effect of reducing the value of land, or rather of checking a tendency (due to other causes) for that value to rise; and as land is the only important asset which most landlords can offer as security for a loan, it has had the further effect of reducing the landlord's credit.

(4) Oudh Rent Act, section 51D.

329. There is another change in the Act which also tends to reduce the value of land, but is of special importance in connexion with usufructuary mortgages. Every landlord whose proprietary rights are transferred either by foreclosure, sale, or certain types of voluntary alienation, becomes an exproprietary tenant, with a right of occupancy in his *sir* and in any land which he had cultivated continuously for ten years before the date of the transfer. For the purposes of this section, a usufructuary mortgage is deemed to be a transfer. Under the old Act, an exproprietary tenant paid a rent equal to 75 per cent. of the average *non-occupancy* rate. Under the new Act, however, his rent is two annas in the rupee less than the roster rates for *occupancy* tenants. Since an average non-occupancy rate was often two or three times the occupancy rate, it is obvious that the usufructuary mortgagee under the new Act obtains a much lower rent in respect of the land which the mortgagor continues to hold than his predecessor under the old Act, with the natural result that the terms which the usufructuary mortgagee at the present day is likely to offer will be considerably less favourable to the mortgagor than they were before 1926.

330. There are other minor changes in one or other or both Acts which also tend to reduce the value of land. Enough, however, has been said to show that recent legislation has weakened the landlord's credit.

331. But whilst these new Acts have had the effect of reducing the landlord's credit considerably, they have affected the credit of the tenant much less. It has been explained in a previous chapter that, with certain special exceptions, no tenant's right is transferable and no tenant's holding can be legally mortgaged; but that all tenants have certain rights of subletting, and use subleases as a substitute for usufructuary mortgages. Under the old Act, an exproprietary or occupancy tenant could sublet the whole or any part of his holding for five years, though he might not again sublet any part thereof until two years had elapsed after the expiry of the former sublease. Under the new Act, these tenants have retained the same right of subletting, but the period which must elapse between subleases is now five years. They are, therefore, slightly worse off than they used to be. On the other hand, the non-occupancy tenant of the old dispensation could only sublet for one year, whilst the period between subleases was three years; but the new statutory tenant, who has replaced him, may sublet for a period of three years, whilst the period between subleases remains the same. The statutory tenant, therefore, is in a far stronger position than the old non-occupancy tenant in the matter of subletting, and consequently in the matter of credit. It is

true that at present statutory rents are. so high that the margin for profit left to a subtenant-mortgagee is small; but in Agra at all events, where enhancement commonly takes place once in twenty years, it is likely to increase with time. And under the provisions of the present Act, the statutory tenure will ultimately become by far the most important of all tenures.

332. As has been already pointed out, such subleases are wholly illegal. They are also wholly pernicious. Redemption is almost impossible because the tenant has reduced the resources from which he must finance redemption; and the end is generally relinquishment of the land by the debtor and a lease of it by the landlord to the creditor. Yet it is difficult to suggest any means by which the practice can be stopped; indeed, the law provides ample means already. The difficulty lies in the fact that the landlord will not use those means, for, as we have pointed out already, the change is often to his advantage.

333. *The tenant's long-term credit.*—Occasionally a tenant requires long-term credit, to repay his inherited debts, to improve his land, or for less desirable objects. But no creditor would grant a long-term loan without adequate security, and the only adequate security which an agriculturist can offer is a mortgage on his land. As matters stand, therefore, the tenant cannot obtain long-term credit at all, unless he is prepared to break the law by a sublease of the type just described; and many of our witnesses have on this account recommended that his rights should be made transferable. We cannot recommend such a change. To an uneducated peasant, an increase of credit merely means an increased incentive to incur debt. That assertion is proved past all doubt by our statistics of debt in the eastern districts, where, amongst tenants and peasant-proprietors, the incidence of debt per debtor is no less than Rs. 330, as against a provincial average incidence of Rs. 172; and the only cause that can be assigned for the difference is the fact that certain classes of tenants in those districts do possess transferable rights. If the tenant is to be granted the right of transferability, then the right must be so limited as to prevent its misuse. After carefully considering all the circumstances, we are disposed to recommend that the exproprietary or occupancy tenant should be given the right to mortgage (but not otherwise transfer), his holding for a period not exceeding twenty years, and only to a land mortgage bank or co-operative credit society; and that the landlord's superior right should be recognised by giving him, in case of enforcement of security by sale, the first right to purchase the equity of redemption, which will enable him to extinguish the occupancy right. The case of a statutory tenant, however, is more difficult. His interest

is limited to his life and five years thereafter, i.e., to an indeterminate period. It is impossible, therefore, to give him even the restricted right of transferability which we have proposed for occupancy tenants, because that right involves the fixation of a determinate period. One solution that has been suggested to us takes the form of granting him a right of mortgage similar to that suggested in the case of occupancy tenants, provided that it is backed by the collateral security of a life insurance, for an amount sufficient to liquidate the loan should he die before the period of redemption has expired. We have carefully considered this apparently simple solution, only to decide with some regret that it is impracticable. *Firstly*, the cost would be prohibitive. The tenant would have to pay both the interest on his loan and the premium on his life insurance, and the total charges on the transaction would probably not be less than the charges on a moneylender's loan. *Secondly*, before an applicant can take out a life insurance policy, he must obtain a medical certificate from a qualified doctor, and such a certificate is not easy to obtain in the countryside. *Thirdly*, the transaction is of a complicated kind, such as no ordinary villager would ever understand, and of which he would probably be deeply suspicious. We consider, therefore, that it is impossible to confer even a restricted right of transferability on any tenant save those who have an exproprietary or occupancy right. On the other hand, since purchase of an occupancy right is now permissible under the law, we suggest that a land mortgage bank or co-operative credit society should be permitted to lend to a statutory tenant the money necessary for that purpose, on the security of the occupancy holding which he will thus obtain. Thereafter, he will be able to command long-term credit in the same manner as any other occupancy tenant.

334. *Hindu and Muhammadan law.*—The peculiarities both of Hindu and Muhammadan law are such that a creditor runs no ordinary risk in dealing with a Hindu or a Muhammadan borrower. Amongst Hindus the root of the trouble is the constitution of the joint Hindu family. A Hindu father or manager (*karta*) borrows money on a representation that the loan was necessary for the benefit of the family. The creditor sues him for the recovery of the debt and obtains a decree. Then some other member of the family, possibly on the inspiration of the debtor himself, brings a fresh suit to save the property, and alleges that the loan was not necessary or was taken for some immoral purpose. Such litigation may last for years, and, whichever party succeeds, the creditor is certain to lose. Similarly, a Muhammadan debtor can defeat a creditor by transferring his property to his wife in lieu of dower. Again, the laws of Muhammadan inheritance are extremely

complicated. There are various classes of heir, both male and female, some with a claim to a fixed share, some with a claim to the residue, some with a claim to both; whilst the presence of certain heirs excludes other heirs. A creditor will rarely have complete knowledge of the family tree, and consequently there is always a risk, in advancing money to a Muslim on the security of property, of discovering too late that that property, or part of it, belongs not to the debtor but to some of his relations. We can, however, suggest no remedy for these inconveniences without disturbing the Hindu's or Muslim's personal law.

335. There are, however, two points to which we draw special attention :—

(1) In a previous chapter, we have explained the peculiarities of Hindu law in the matter of the inheritance of debt, and have pointed out that the heir in taking over such debt often goes beyond the requirements of the law itself, which limits his liability to the assets which he has inherited. This in our opinion is not due, as the Royal Agriculture Commission suggests, solely to ignorance of the legal position.^(*) It is due also to a sentiment which is inspired partly by respect for the ancestor, partly by religious consideration. But the effect of this sentiment is lamentable. In the words of the Royal Commission "the people are so accustomed to be in debt, to take it over from their fathers and to pass it on to their sons, that they accept indebtedness . . . as a natural state of life."^(*) It is a sentiment which in the circumstances of Hindu family life will not easily or quickly pass away. Here and there an heir may be found willing to brand his ancestors with the stigma of immorality to escape taking over their debts; but such cases, we imagine, are rare and whenever they do occur, are often inspired by the debtor himself. It is a sentiment, too, which we find impossible to condemn. Nevertheless, the present position in this respect is that "the fathers have eaten sour grapes and the children's teeth are set on edge."

(2) The religion of Islam forbids a Muslim taking interest. To a Muslim, therefore, profitable investment is impossible. It is said that in some parts of the country this prohibition is weakening, or that it is evaded by such means as taking a bond from a debtor for an amount larger than was actually lent, or by granting a loan at a discount. We doubt, however, whether these refinements have yet penetrated into the villages; and the prohibition is still observed by orthodox Muslims everywhere. There was a proposal, we believe that the interest payable by

(*) Agricultural Commission Report, 435.

(*) *Ibid*, p. 434.

government on the deposits in post office savings banks or postal cash certificates should be funded for the benefit of Muslim education. We suggest that the Muslim authorities might consider whether life insurance could be accepted by Muslims as a suitable form of investment.

336. *Stamp duties on hundis and bills.*—We have referred to this matter in Chapter XI, and merely mention it here to complete our survey of the legal points which affect credit.

337. *The Land Improvement Loans Act of 1883 and the Agriculturists Loans Act of 1884.*—We have already dealt at some length with the subject of *tagavi* loans. We have had to mention numerous complaints of the manner in which the Acts are administered, and have made suggestions for removing them. Here we need only mention, for the sake of completeness, that the defects are entirely administrative and that we have no fault to find with the Acts themselves.

338. *The errors of moneylenders and banks.*—There can be no doubt that in some directions the scales are weighted against the moneylender. We cannot, however, conceal from ourselves that to some extent he is himself to blame if his legal position is weak. Induced by the hope of a high return for his money he is apt to take risks which no prudent man would take, and if in the end he loses thereby, he is entitled to blame only himself and not the law. Even banks, according to one of our most important legal witnesses, are not above reproach in this matter. "I found myself" writes this witness "that no regard is paid to the composition of the directorate. Anyone who is supposed to possess some sort of local influence is considered to be good enough to be appointed a director, whether he knows anything or not of the working of a bank . . . I had a case in my hands some three years ago in which a branch of a bank in some other province was started in a small hill station. The manager or the local managing director was a man of no particular repute. The bank went into liquidation, and if my recollection is right, all that was discovered in the till was a sum of Re. 1-5-0." Another case which he quotes is that of a bank which advanced half a lakh to the guardian of a person who had been adjudged a lunatic by a court of law, on the security of the lunatic's assets, without the sanction of the judge. Though amongst the directors were some lawyers, nobody had troubled to obtain this sanction. "I was not surprised", adds our witness, "when a few years later the bank went into liquidation." This witness offers us the following recommendations:

Legislation is needed to provide for (1) the minimum qualification of the directors. This should not be confined to the possession of a

certain number of shares, but include either previous training in a bank or special knowledge of finance; (2) the minimum qualification for appointment as manager, agent or their assistants; (3) for the compulsory appointment of legal advisers who know something of banking commercial law and have made a study of conveyancing. In this connexion our witness points out that a large part of the litigation in this country is due to the fact that people enter into transactions without previously obtaining legal advice, and in proof of his statement mentions a case in which a bank might have saved a large fee paid to its counsel during the litigation, if before entering into the transaction it had paid a small fee of Rs. 100 or so to any junior lawyer for his advice. "The practice of retaining a family solicitor or private solicitor so common in England and also in the presidency towns is wholly unknown in these provinces and the result is legal chaos." Our witness is of such eminence in his own profession that though all his recommendations may not be equally practicable, we record them without comment for the consideration of the Central Committee who are examining the question of banking legislation.

CHAPTER VIII.

POSSIBLE REMEDIES IN THE PRESENT SYSTEM OF AGRICULTURAL CREDIT.

339. *The economic situation of the cultivator.*—In preceding chapters we have fully described the present position in respect both of agricultural credit and debt; and before suggesting possible remedies or palliatives of that situation, we propose to draw attention once more to certain of its salient features.

(1) Though in any country only the wealthy agriculturists can succeed in avoiding debt, yet 46 per cent. of our cultivators are debt-free.

(2) Though 56 per cent. of all cultivators possess holdings which are below the minimum economic area, the proportion of debt-free amongst these small farmers is as large as it is amongst their richer brethren.

(3) Debt is least heavy in those very tracts where the number of uneconomic holdings is largest.

(4) Debt increases directly with the size of the holding.

(5) Yet even the debt-free peasant, if judged by any Western standard of comfort, is desperately poor.

In a word, the economic situation of the Indian peasant consists of a series of paradoxes, which we now have to consider and, if possible, explain.

340. That explanation is not far to seek. The conclusions stated above are based solely on the peasant's agricultural income, and take no account of any subsidiary source of income that he may possess. The census figures prove that a certain number of cultivators do possess subsidiary resources. Many cultivators, for instance, are also receivers of rent or agricultural labourers. Many possess some non-agricultural occupation; they are blacksmiths, or carpenters, or traders, or weavers, or tanners, or priests. Many, again, supplement the income derived from their fields by growing fruit, or fishing, or hunting, by collecting sticks, or cow-dung, or fuel, by collecting leaves for leaf platters (*dauna*), by making mats of grass or baskets of bamboo, and generally by utilising, in one manner or another, the products of Nature which they find around them. Very often, again, the wife or the child has an occupation of her own, as midwife, or monthly nurse, or cowherd. Richer agriculturists often earn an additional income as moneylenders, or cartmen, or grain-dealers. Finally, there is a considerable volume of emigration from many parts of the province where the pressure on the soil

is heaviest, which creates for the cultivator additional resources in the shape of remittances received from the emigrants abroad. In short, the agricultural population does not depend solely on its agricultural income, but has many subsidiary occupations; and any conclusions based solely on agricultural income are to that extent misleading.

341. It is this fact which solves most of the paradoxes mentioned above. The proportion of debt-free agriculturists is large, because they do not rely solely on agriculture for a living. It is large amongst those which possess uneconomic holdings, because it is amongst the small holders that subsidiary occupations are most numerous. Debt is less heavy where the number of uneconomic holdings is largest, partly for the reason just stated, partly because these are the tracts which send most emigrants abroad. Finally, the reason why the largest holdings carry the heaviest weight of debt is due entirely to the fact that the largest tenants belong to the highest castes, of whose extravagance we have had much to say.

342. One or two minor points which affect these conclusions may also be mentioned.

(1) An uneconomic holding is one which is unable to support the cultivator and his family in reasonable comfort. But the question whether any particular holding is or is not uneconomic depends on other considerations than its size. A member of a market-gardening caste, such as the Koiri or Murao, can live, and live well, on a holding of two acres. The number of uneconomic holdings, therefore, is to this extent exaggerated.

(2) A man may be debt-free not only because he is so well off that he need not borrow, but because he is so poor that nobody will lend to him. Amongst the number of debt-free are doubtless included some of the latter class. We doubt, however, whether there are many such. A cultivator must be poor indeed if he cannot borrow at least one *gist*.

343. Having considered all these factors and the economic situation of the agriculturist, we can state it briefly thus. Agricultural indebtedness, though it is undoubtedly heavy in most parts of the province, is not so widespread as is commonly supposed. The principal causes of this somewhat unexpected result are two. *Firstly*, the agriculturist has learnt to supplement his agricultural income from subsidiary occupations, and *secondly*, migration has not only relieved the pressure on the soil to some extent, but has brought more wealth into the province. In short, ordinary economic forces have been at work to relieve the economic situation.

344. *The poverty of the peasant.*—Yet despite it all, the peasant remains poor. We have calculated elsewhere that 30 per cent. of all cultivators are living below the economic level and cannot even in the best of years make ends meet. Another 52 per cent. are living at or just above the economic level, making ends meet only in a good year but not in a bad. Only 18 per cent. can be regarded as well-to-do. It is to be remembered, moreover, that poverty and wealth are relative terms. The first class of the three which we have mentioned is poor *even* by the peasant's own standard of comfort. The third is well-to-do *only* by his own standard of comfort. And that standard of comfort, in comparison with that of any Western nation, in comparison with that of certain other provinces, is miserably low. In proof of which statement it will suffice to offer two quotations:—

“The possessions of the ordinary peasant are limited to essential capital—a little land, a pair of bullocks, and seed for the next crop: and bare necessities—an unsaleable house, the clothes he stands up in, a store of coarse food grains and the utensils required to cook it in.”⁽¹⁾

“Abject poverty is very rarely met with in any of the villages in ———. But no less rare is any semblance of affluence amongst the cultivating classes. Brahmans, Thakurs and Muhammadans are on the whole less parsimonious than the other classes and constantly give the impression of being better fed. Even amongst these classes, however, it is very rare to find a plump figure in the person of a cultivator The assumption is that cultivators cannot afford more than the barest necessity in the way of food. It would be cheering to see a little rounding of spare figures; and it is hoped that security of tenures may be helped by good harvests in the future to give a little more than bare subsistence to the deserving *kashtikar*. Apart from food, housing leaves very much to be desired. Masonry houses are extremely rare and sanitation is not even considered as a rule.”⁽²⁾

345. *Possible remedies.*—There are, as usual, only two possible means of improving the financial position of the peasant. The first is to increase his income; the second is to decrease his expenditure. We consider the possibilities under each head separately.

(¹) Evidence, Vol. III, p. 79.

(²) These comments are from a recent rent-rate report. We prefer not to particularise.

- (1) *Industrialisation*.—At all times in the world's history and in every country, the development of industries has been the means of relieving agricultural depression. It draws off surplus population from the country to the town and relieves the pressure upon the soil. It gives to those that go a new and adequate income; it increases the adequacy of the old income for those that stay. Unfortunately, the agricultural population is conservative in its habits and hopelessly immobile. At every census, over 90 per cent. of the population is enumerated in the district where it was born. At present, too, the large scale industries of the province are neither sufficiently numerous nor sufficiently developed to relieve the pressure of population. Nevertheless, though the peasant may be unwilling to go to the industry, it is still possible to bring the industry to the peasant. There are numerous small-scale occupations available to him, either as a substitute for agriculture or as supplementary to it. Fortunately, he appears to have discovered for himself the value of industrialisation in this restricted sense.
- (2) *Emigration*.—From the most ancient times, migration, whether of a man or a nation, has always been regarded as the simplest and quickest means of relieving the pressure of population in an overcrowded tract. This was doubtless the cause which brought the Aryan race to India. It is still the cause which sends the Englishman to New Zealand, or the Indian to Fiji. There has long been a considerable volume of migration from some of our overpopulated districts, notably those in the East, and there are indications that it is growing. This is a remedy, therefore, which the people themselves may be left to apply. As has been explained already, migration has a further result in securing for those who remain at home an additional source of income provided by the emigrants.
- (3) *Additional cultivation*.—Another obvious method of alleviating pressure on the soil is to break up fresh soil. As we have seen, however, little fresh soil is available in the province, especially in those areas where it is most required.
- (4) *New kinds of cultivation*.—At present the greater part of the cultivated area of the province grows the staple food-crops. The area under such money-making crops as cotton or

sugarcane is relatively small. In favourable circumstances,—specially fertile soil, specially good facilities for irrigation, specially skilful cultivation, specially good communications,—there is already a tendency for the latter to replace the former. But as yet the circumstances are sufficiently favourable only in restricted areas, notably the western districts. There are, however, other forms of cultivation which can also be regarded as essentially money-making, which the cultivator has so far shown little inclination to adopt. Of these, the most important is fruit-growing; and there are undoubtedly tracts in the province specially suitable for this purpose. We are informed, for instance, by one of our members that the private gardens in the tiny town of Basti grow eleven different kinds of fruits,—mangoes, lemons, loquats, liches, peaches, pineapples, *papaya*, oranges, plantains, guavas and walnuts. Nor was the soil particularly fertile.

- (5) *Intensive cultivation*.—"It is clear", says the Royal Agricultural Commission, "that in the adoption of some form of intensive cultivation lies the greatest hope of enabling the cultivator to meet from his small holding his own needs and those of his family."(¹) Intensive cultivation is a vague term. Some seem to interpret it as meaning solely the substitution of a crop which fetches a better price for a crop which fetches a lower price, and usually mention the growing of vegetables as an example of such cultivation. But as we have shown elsewhere, intensive cultivation in this sense has its limits. It is useless to grow vegetables in excess of the probable consumption; it is impossible to grow them except in the immediate vicinity of the consumer, unless easy and rapid means of transport are available. Intensive cultivation has, however, another meaning, namely the growing of better crops of *the same kind*, for which the principal requisites are better seed and better fertilisers. It is in this direction that progress will be easiest and most rapid. Indeed, thanks to the energies of the Agriculture department, there has been considerable progress already. On the other hand, intensive farming is seriously hampered both by the fragmentation of holdings and their pepper-pot distribution: and, thanks partly

(¹) Agricultural Commission's Report, page 416.

to the peculiarities of personal law, partly to the predilections of the peasant himself, these difficulties will not be easily overcome.

346. *The need for capital.*—For intensive cultivation, however, the peasant requires command of ample capital,—short-term capital for the purchase of improved seeds and manures; intermediate capital for the purchase of better plough animals; long-term capital for expenditure on improving his land. There has never been much difficulty in providing him with the first few types of credit, though usually at an exorbitant price. The problem in this case is to provide him with cheaper credit. The provision of long-term credit, however, is a very difficult question to which we shall presently return.

347. *Possible reductions of expenditure.*—We have already made it plain that the peasant's standard of comfort is miserably low. It is wholly impossible to suggest, therefore, that he should reduce his expenditure on his own personal needs, of those of his family, or of his animals. On the contrary we should prefer to see him use any additional income that he may secure in any of the manners which we have suggested in increasing that expenditure. The only expenditure which we desire to see reduced are his debt charges. Such reduction can be effected in one of two ways—

- (1) by borrowing less, especially for unproductive expenditure;
- (2) by borrowing at lower rates.

At the present moment it is no exaggeration to say that the peasant borrows for any purpose, as much as he wants, whenever he wants, at any price, and whether he can afford to borrow or not; and nothing will stop him but a general refusal on the part of all available moneylenders to lend. He has no idea of equating his expenditure to his income, and an extension of his credit will merely tempt him to extend his debt.⁽⁴⁾ It is equally useless to restrict his credit by such a device as the Bundelkhand Land Alienation Act; for if one source of credit is closed to him he will find another, and his second creditor may be less desirable than his first. Such measures would amount to treating the symptom instead of the disease. The only cure possible is education; by which we mean not merely literacy but the development of his mental powers, of his native shrewdness, and of his knowledge, especially in such matters as affect his own well-being,—in a word, his worldly wisdom.

⁽⁴⁾ It is for this reason that we are so averse to granting even to the occupancy tenant an unrestricted right of transfer; for such right will merely increase his credit and tempt him to incur fresh debt. As one witness puts it "The occupancy tenant has begun to decay, but it is undesirable to expedite the obsequies by making it easier for him to barter away his life blood."

348. *The educative value of co-operation.*—We are convinced that such education can only be provided by the co-operative movement. At present it is looked upon in the country rather as a school of business than as a school of discipline, as an agency for providing cheap credit rather than as an agency for teaching its economic use. We hold strongly that for the future the co-operative society must change its tactics. It must address itself to meeting the general needs, and not merely the credit needs, of its members; the supply of selected seeds, of improved implements, of better plough bullocks, the marketing of crops, the problems of illiteracy, sanitation, human and cattle disease, the prevention of waste and extravagance,—in fact every form of activity which will make for the improvement of the peasant's lot should come within its scope. It will, of course, continue to supply cheap credit, but rather as a means to an end than an end in itself.

349. In operations such as these, Government can only play a secondary part. It can advise and assist them; it can neither direct them nor carry them out. In a peasant movement, as the co-operative movement essentially is, the leaders must come from the people, preferably from the peasants themselves. We can only commend the co-operative movement to those who are interested in social reform.

350. *Long-term credit and the land mortgage bank.*—Of all the problems before us those which relate to long-term credit are the most important and the most difficult—important because such credit is at present shamefully wasted on unproductive purposes to the detriment of agriculture; difficult because nothing less than some organisation capable of controlling the supply of such credit can put an end to the present misuse of it. We make no apology therefore for dealing with this subject at some length. Our task is to link the agriculturist to the organised saving system of the country, to make him independent of private agency and to give as much mobility as possible to his immovable assets. According to the Report on agricultural credit published by the British Ministry of Agriculture and Fisheries in 1927, the problem may be defined as the finding of "an adequate agricultural substitute for the industrial joint-stock method of obtaining capital"; or, in the words of the preamble of the Federal Farm Loan Act of the United States,—"to provide capital for agricultural development and to create a standard form of investment based on farm mortgage."

351. The land mortgage bank seems to offer a suitable solution. It specialises in long-period borrowing and lending. The principal object of such a bank is to grant first mortgages on agricultural land and to raise money for this purpose by the issue of bonds to the public, secured upon these mortgages. Repayment of mortgages is distributed over a number

of years; the annual instalment or annuity is slightly in excess of the interest charge. There are many capitalists, large and small, who possess funds for which they have no use either immediately or in the near future, and who would welcome the opportunity of investing in a security so suitable as debentures. The Indian prefers visible forms of investment and wealth, and debentures based on land should appeal to him.

352. Our questionnaire contains a brief note on land mortgage banks. One of our members in a note has described in detail the constitution of land mortgage banks in other countries and the nature of State recognition and assistance which is granted to them.^(*) We here quote two passages from the final report of the British Agricultural Tribunal of Investigation, dated 1924, which deals with the *Landschaften* (land mortgage banks of Germany) and the Federal Farm Loan system of America.

"The fundamental idea is the issue by the *Landschaften* of land bonds based on the estates mortgaged in its favour. But the bonds are not issued on the security of specific properties; the guarantee behind them is the collective guarantee of the members. The borrower is paid at par value in bonds which he may realise in the market or through the agency of banks attached to the societies. The loan is usually up to two-thirds of the value of the property. He has the right to repay by an annuity, or by special instalments at any time. He can cancel his loan by purchasing and tendering bonds. On the other hand, the holder of the bonds cannot at any time demand repayment, but can realise in the market. Bonds are called in according to the progress of repayment and the accumulation of funds from the annuities."

"The Federal Farm Loan Act of the United States passed in 1916 is a variant of the principle of the *Landschaft*. Loans are made to farmers by twelve Federal Land Banks, each operating in a separate district, with a capital of not less than \$100,000. The Government will, if necessary, make up the subscription to this amount, but it is expected that its contribution will in time be returned. The borrower must join a Farm Loan Association, subscribing 5 per cent., of the loan he requires, and having a liability up to that amount. This amount is subscribed by the association to the stock of the loan bank, from which therefore the profits circulate down to the associations and through them to the subscribing farmers. Each association guarantees its own mortgages, and each Federal land bank guarantees the bonds and coupons of the others. There is thus a very broad basis of insurance. The most notable

(*) Evidence, vol. II, pp. 79-81.

feature of the American administration is that the bonds of the Federal loan banks are sold to the public free of all taxation."

These land mortgage banks can obviously assist only those who have land to mortgage. They cannot lend to tenants unless their tenancy rights are made transferable. In a previous chapter we have laid stress on the danger of granting free transferability to a tenant. We once more insist that, though some measure of transferability is essential if the tenant is to share in the benefits which will result from a land mortgage bank, yet it should be restricted solely to transfers in favour of the bank itself, and only for a single object, namely the redemption of existing long-term debt.

353. Some witnesses hold very strongly the view that conditions in this country are not favourable to the introduction of land mortgage banks. The agriculturist, and especially the landlord, is a bad payer. The banks will certainly be faced with large arrears leading to many foreclosures, with the result that the bank itself may find itself saddled with the management of the ownership of large areas of land. This view is entitled to respect. Nevertheless, we are inclined to believe that a land mortgage bank, if its management be sound, would prove of real help to the landlord overburdened by long-term debt. At the beginning of the bank's career it would, of course be necessary to accept the applications only of debtors whose past history warrants a belief that they will not abuse their credit or allow instalments to fall into arrears. No bank can be expected to help a debtor who will not help himself or, through ignorance or imprudence, is determined to work his own ruin. But there is no reason why an attempt should not be made to assist those who have been engulfed in a morass of debt through the sins of their forefathers or their own youthful follies, but are now anxious to save themselves; or to help those who desire to improve their property. In short, a land mortgage bank, if it is to be successful, must at first move very slowly and very carefully. But there is no ground for the pessimism which would prevent its coming into existence at all.

354. Should the bank be constituted on a co-operative or a joint-stock basis? We regard the former alternative as impracticable, for most of the bank's customers will be *zamindars*, who will not easily be persuaded to group themselves in co-operative societies. The second alternative is undesirable. A joint-stock bank will look chiefly, if not entirely, to its profits and the interests of its shareholders and ignore those of its debtors. The solution we consider to be in a compromise between the two. The bank's share capital should be open to the public for subscription; but any person, whether an individual or a society,

who desires to borrow from the bank must first acquire an interest in it by a purchase of its shares. At first, the bank would require a large measure of outside help, in the shape both of money and enlightened management, and both would be provided by the shareholders of the ordinary kind; later, when the borrowing shareholders have acquired the necessary knowledge, the whole administration could be handed over to them, when the management of the bank, if not the bank itself, will conform to co-operative ideals.

We consider that a bank of this kind will best suit the special needs of the province. Of the details of its constitution we need say no more here, since they are fully stated and discussed in an appendix to this chapter. Though the average landlord will not readily become a member of a co-operative credit society, it is possible that landlords may in the course of time combine to form a land mortgage association, or hand over the control of land mortgage transactions to an existing association of *zamindars*, such as the British Indian Association in Oudh, or the Agra *Zamindars' Association* in the other province. Such associations could never be a satisfactory substitute for a bank, for though they might conceivably be allowed to raise a loan or accept deposits from the public, they could not do so at rates as low as the bank could command, whilst it would be impossible to allow a number of such associations to issue each its own debentures. So long, however, as they are ancillary to the bank, and content to act only on its advice and with its assistance, there can be no objection to their creation.

355. A land mortgage institution may take one of many forms. There are some who advocate an independent bank for every district or *tahsil* or even for an area as small as a village; which bank, according to some should be constituted on a co-operative basis, according to others on a joint-stock basis. We are strongly opposed to such a multiplicity of banks. No bank of this description could possibly afford to pay for efficient management or possess the special knowledge required for long-term credit operations. It could rarely secure sufficient capital in its own area; it could seldom, if ever, inspire sufficient confidence to secure cheap credit in other areas. A multiplicity of banks would mean a multiplicity of debentures, which would not all be equally popular, and consequently would not all be equally marketable. Such banks, again, would be specially subject to the temptation of ignoring sound principles of land valuation. And, finally, the failure of any one of these banks would react disastrously on others.

Others advocate the creation of a single institution in a single centre, but operating all over the province. Such a bank doubtless could secure all the financial support that it required whether in the shape of share

capital, debentures, or deposits. But its utility would be small because it would lack the local knowledge which is necessary to enable it to deal with particular applications. Such a bank, moreover, would probably ignore the interests of the smaller landlords and devote itself almost exclusively to satisfying the needs of the bigger men.

356. The solution seems to lie in the creation of a provincial land mortgage bank with a limited number of branches in important places, each operating in a separate area, and agencies subordinate to each branch, wherever need for an agency exists. The agent would be any existing bank, whether joint-stock or co-operative, or even a primary co-operative credit society. Each individual land-owner could then approach the bank through its nearest agent. A small farmer or tenant, if he were a member of the co-operative credit society, could approach it through that society. As the work of the bank increases more branches would naturally be opened. In making these proposals we are but suggesting an adaptation of the methods of the English land mortgage bank which works through the agency of other banks. Obviously a unitary organisation of this kind would be better able than any other to bring about uniform practices and uniform standards of valuation.

357. *The tagavi system.*—(a) *The Agriculturists' Loans Act.*—We have received numerous complaints of the working of the *tagavi* system. The suggestions which we have received for its improvement are almost as numerous, but many are wholly impracticable. We here state briefly our own recommendations.

The first and most important question which we have to consider is whether the operation of the *Agriculturists' Loans Act* should or should not be confined to occasions of distress. This incidentally is a point on which very few witnesses have offered an opinion. Our own opinion agrees with that of the Royal Agricultural Commission. It is argued that in normal times "the system of government loans is inimical to the growth of a healthy spirit of self-help . . . that it runs counter to the teaching of co-operation and that it leads to demoralization inasmuch as a beneficent government is expected to and does remit the loan should severe distress continue; and this a co-operative society cannot afford to do. It is further pointed out that government can never find the whole sum required to finance normal agricultural operations, and that therefore their attempt to find a part of it merely leads to anomalies." These arguments contain all the material required for their own refutation. Government loans are inimical to the growth of a healthy spirit of self-help. But what is to happen during the period before that

spirit has acquired its full growth? Government loans again run counter to the teaching of co-operation. But so far co-operation in this province has taught the agriculturist little or nothing. Government loans again lead to anomalies. But an anomalous system of credit is better than none. Government loans will no doubt be gradually displaced by co-operative credit; but we agree with the Royal Agricultural Commission that "until the co-operative movement has reached a much more advanced stage of development, the system of government loans must continue" in normal times as well as in calamities.

358. Our recommendations for removal of the defects observed in the administration of the Act can be briefly stated.

(a) In times of distress the preliminary enquiry regarding the need for relief and the amount of it should not be delayed till calamity is imminent; but should be made as soon as it is in sight. Those enquiries should be conducted by responsible officers (assistant collectors or tahsildars); but in making them, they should look as far as possible for advice to the landlords and elders of the village concerned and not to the patwari. Even in times of distress the amount allotted is usually small compared with the total needs of the province. On the other hand, no government, even in a time of distress, can be expected to provide all the agricultural credit that is likely to be required. At present there is a tendency to grant small sums to as many individuals as possible,—which sums are generally too small to serve the ostensible purpose for which they are given, with the result that they are devoted to other purposes. We suggest for the consideration of Government that it will in the long run confer a greater benefit on the people as a whole if it restricts the number of recipients, but gives to each the full amount that he requires. The recipients selected should, of course, be those whose need is greatest.

(b) At present, alike in normal times and in times of distress, the distribution of *taqavi* is often delayed till the time for its profitable spending has passed. This again leads to misuse of the money advanced. There should be no particular difficulty in avoiding such delay.

(c) The corrupt practices that exist in connexion with the distribution of *taqavi* can only be avoided if that distribution is carried out through co-operative societies where they exist, through village *panchayats* or, in their absence, through the landlords. In the first case, of course, the distribution should not be restricted merely to the members of the co-operative society. If it becomes necessary to select recipients then the landlord should invariably be consulted. It is possible that the supervisor qanungo could give adequate assistance, for an official of his status will generally be above suspicion. But it is not, in our opinion,

fair either to the borrower or to the patwari himself to put temptation in the latter's way.

(d) On the subject of the recovery of government loans, the Royal Agricultural Commission writes as follows(*) :—"The rigidity of recovery is sometimes the subject of complaints, but it is not in the real interest of the cultivator that he should be permitted to delay the repayment beyond the harvest of a loan taken for seed, fodder or fertilisers." In theory, they are no doubt correct and in practice too so far as *taqavi* granted in normal times is concerned. But we find ourselves unable to agree with them in respect of *taqavi* granted during times of distress. At such a time, short-term debt of the kind required must necessarily accumulate and when the date for repayment comes with the harvest the tenant has to finance out of a single crop the short-term debt relating to two or more crops; and the first good crop after a series of bad ones is rarely good enough to stand the strain. The result is that a tenant who has taken a *taqavi* loan must more often than not borrow to repay it, or in the alternative must borrow to repay his other short-term debt. We suggest, therefore, that the recovery of *taqavi* advanced in times of distress should invariably be effected not in one instalment but in two, the second of which should be a full year after the first.

Mutatis mutandis, we have the same recommendation to make in respect of loans for the purchase of cattle or other intermediate debt.

359. (b) *The Land Improvement Loans Act*.—We have received few complaints regarding the management of the Land Improvement Loans Act and have few recommendations to make. The principal complaint seems to be that the possibility of taking *taqavi* for effecting land improvements is not sufficiently well-known. That is a matter which can easily be remedied. If, however, a land mortgage bank is instituted, the probability is that loans for land improvements will no longer be required at all, since the bank will provide all the long-term credit that is required.

(*) Agricultural Commission's Report, page 430.

APPENDIX.

Scheme for a Provincial Land Mortgage Bank.

1. *Object.*—The object of the bank should be to provide long-term credit on the mortgage of agricultural property at a reasonably moderate rate of interest, and to achieve this end it should take long-term deposits, loans and introduce a marketable form of investment on the security of mortgages in its favour.

2. *Organisation.*—The bank should have its head office at an important place, e.g., Lucknow or Cawnpore and work through a network of branches, agencies, sub-agencies, correspondents and land associations, so that it should be easy for anyone who stands in need of long-term finance to make use of the facilities which it provides.

3. *Capital.*—The bank should have a capital of Rs. 25 lakhs. Capital provides initial resources, and as such is preferable to any guarantee, which is merely potential security and less tangible. The capital should be divided in 25,000 shares of Rs. 100 each, known as "A" shares. These shares should be offered to the public, banks, co-operative societies, etc. Special efforts should be made to induce banks, the British Indian Association and similar bodies to lend their support and give the benefit of their knowledge and experience. The shares should be payable as follows:—25 per cent. with the application, 25 per cent. on allotment and the balance in two calls as and when required. So that the agricultural classes may take an active and intelligent interest in the affairs of the bank, each borrower, whether an individual or land association, should contribute 5 per cent. of his loan to form additional capital. These contributions should be designated as "B" shares.

4. *Rights of shareholders and directors.*—As "A" shares are contributed with the object of helping the movement by people who will have no direct benefit save a restricted dividend, and the bank will work solely in the interests of "B" shareholders, "A" shareholders should have some preference over "B" shareholders in the matter of appointment of directors, declaration of dividend, decision on important matters and in case of liquidation. Both should have the right to attend annual meetings and participate in the discussions. Besides appointing two directors, as referred to hereafter, the "B" shareholders should elect an advisory committee of six from among themselves whose main purpose would be to look after the interests of their class and confer with the directors at least once in three months to place before them their views. This arrangement will have great educative value.

There should be not more than twelve directors appointed as follows :—(i) two to be elected by the general body of holders of "A" shares, each such director to possess shares worth at least Rs. 5,000, (ii) one to be nominated by the Provincial Co-operative Bank provided it has contributed a prescribed amount of capital, (iii) one to be appointed by the commercial banks working in the province, each bank to have one vote (only those banks should be entitled to vote who possess a minimum capital of Rs. 10,000 in the bank), (iv) one to be nominated by the Reserve Bank which should further contribute Rs. one lakh towards capital, (v) one to be nominated by the Provincial Legislative Council, (vi) two to be nominated by the Governor in Council, one of whom should be a non-official, (vii) some government officer who is in touch with land problems and the financial requirements of agriculture, (viii) one to be nominated by the Land Credit Board referred to hereafter, (ix) two to be elected by the holders of "B" shares.

5. *Methods of obtaining working capital.*—Besides the initial share capital the bank should raise funds by deposits for not less than five years, and by the issue of savings certificates and debentures and loans. Although some witnesses have said that the bank should be allowed to accept current savings and short-period deposits, we think it will be dangerous to associate short and long-term business. Not only is the experience of other countries against this arrangement, but the peculiar conditions present in the province indicate the need for a cautious policy.

Debentures should be secured by mortgages and other acceptable assets of the bank and should always be covered. In the interests of the debenture-holders, the security should be assigned to a special government officer, designated in this behalf, who should have power to look into the accounts and satisfy himself regarding the value of the security. In fact it should be necessary to obtain his permission before floating any debentures. To facilitate flotation, underwriting may be arranged either direct or through the Land Credit Board. To supplement its capital the bank may take loans from banks. Government and local and foreign markets. The total of liabilities under deposits should not be more than ten times the amount of capital and reserve.

6. *Loans.*—The bank should advance for any of the following purposes :—

(a) Purchase of land.

(b) Reclamation and improvement of land, including building of houses, sinking of wells, etc.

(c) Equipment of machinery and plant and construction of works like irrigation channels, bridges, etc., with a view to increasing production.

(d) Repayment of previous debt.

It is not possible to lay down the proportion which should be observed between the advances made for the above objects; this should be left to the discretion of the management and the Land Credit Board.

No loan should be made unless it is secured by an adequate mortgage. Difficulty will arise in the case of tenants. This question has been discussed in chapter VII. If the Tenancy law is amended so as to make occupancy rights transferable in favour of the land bank, by way of further security at least 10 per cent. of the tenant's other assets should be assigned in favour of the land bank. The Government should also examine in this connexion, in consultation with actuaries, whether it would be possible, without considerably increasing the cost, to devise some sort of credit-cum-life insurance on the life of the borrowing tenant, so that if there is any outstanding on his death it could be liquidated by the insurance agency and his posterity start with a clean slate.

The amount of loan should not be more than 50 per cent. of the value of the land, or ten times the average annual net yield, based on the figures of the preceding five years, whichever is less. Similarly in the case of tenants the credit should not exceed 40 per cent. of the value of his rights or the gross value of the average annual produce, whichever is less. It should be left to the management to ascertain in each case the basis of value; but as a general rule the average of the amounts determined as under, after making due allowance for possible variations in the future, should be a fair criterion: (a) value based on the average net yield during the last five years at a valuation of 16½ years' purchase; (b) the average value of land sales in the locality after taking into consideration special features, such as the proximity of a market and railway station, and the nature of crops grown; (c) probable market value as determined from local enquiries.

The maximum period of loan should not be more than forty years in the case of land-owners and twenty in the case of tenants. The former should, however, be permitted to repay after ten years and the latter after five. There should be nothing to prevent even an earlier adjustment in case of sale or other special circumstances; but the borrower should in that case pay such compensation, to meet loss in interest due to disturbance in the bank's schedule of contracted receipts and payments, as may be determined in each individual case.

The repayment should be by equated annual or semi-annual instalments unless it is mutually agreed otherwise.

7. *Special legal privileges.*—Apart from suggestions already made in connexion with occupancy rights and mortgage of agricultural assets, the bank should enjoy the following special legal privileges.—(a) Its debentures should rank as trustee securities. (b) The debentures should at first be free from income-tax, the privilege being withdrawn later when the public is used to this form of investment. (c) The registration authorities should issue certificate of encumbrances without any charge or at a nominal cost. (d) The bank should have power to foreclose, take possession, manage, or sell the property without going to court. And in case of resistance by the mortgagor to apply to the nearest competent court for assistance. (e) The accounts of the bank, both as regards debt and management of property, should be sufficient for the purpose of evidence. (f) The bank should be indemnified in respect of all acts done *bona fide*.

8. *Government aid.*—The Government should assume the following financial obligations, which are but a variation of the form of the responsibility which they have already recognised and accepted in the shape of the "Land Improvement Loans Act." Their purpose and the object of the Act will be much better served if the aid is supplied through the machinery of the land bank and in the form herein outlined. (a) Any share capital or debentures which is not taken up by the public within two months should be taken up by the Government with power to re-sell, but not below par. (b) If necessary the Government should lend its name to the bank when floating large loans or arranging underwriting. (c) The bonds of the bank should be accepted as security for government contracts; and courts and other bodies which have a large amount of public funds at their disposal should be to invest them in the debentures. (d) To inspire confidence in the bonds the Government should guarantee in the initial stages both the principal and interest. Such a guarantee would generally be merely nominal and never called into effect, but the Government should be free to examine their position in this respect from time to time.

To enable the Government to safeguard their interests, it has already been suggested that they should have representation on the directorate sufficient to secure effective control. Further, the appointment of the manager of the bank should be subject to the approval of Government. Lastly, the Government should examine the affairs of the bank periodically, or, if considered sufficient, the examination may be conducted by the same agency which has been recommended in the case of commercial banks.

9. *Profits, dividends and reserve fund.*—The bank should be subject to all charges and taxes excepting those already mentioned. The profits of the bank should be distributed as under and in the following order :— (a) Twenty per cent. to reserve until it equals paid-up capital. (b) From the balance six per cent. should be paid as cumulative dividend on "A" shares and thereafter five per cent. non-cumulative dividend on "B" shares. (c) The remainder should be split up in two equal parts, one part to go to the Government and the other to be divided amongst "A" and "B" shareholders in such a manner that the percentage of additional profit on "A" is twice that on "B". Since it has been recommended that Government should assume financial obligations and forego a certain amount of revenue, it is but fair to allow them to participate in surplus profits. The differentiation in the distribution of profit to "A" and "B" shares is suggested not only to offer an attractive inducement to people who will not derive any benefit from the credit resources of the bank, but because their money remains longer in operation and plays a greater part in the building up of reserves and the earning of profit. There should however be maximum limits on the total dividend. We suggest 8 per cent. in the case of "A" and 6 per cent. in the case of "B". The surplus if any should be taken to reserve.

But no dividend should be declared if (a) the bank's obligations to the debenture-holders remain unfulfilled or any amount is due to the Government in respect of their payment towards guarantee; (b) the value of properties which the bank is compelled to purchase or which the bank has taken under its own management on default exceeds the amount of its paid-up capital and reserve.

8. *Land Credit Board.*—The functions of this body should be to co-ordinate the activities of all the provincial land mortgage banks, guide and supervise them, and assist them in the flotation of bonds. If the board thinks it necessary, it may pool the resources of all the land banks and arrange issue of bonds on their collective strength. It would issue instructions to the mortgage banks from time to time on all matters of procedure, interest rate and policy. It would take up all the duties which the Federal Farm Loan Board performs in America. The expenses of the board should be borne by the land banks, provincial Governments and the Government of India on some equitable basis. Its composition should be :—(a) a nominee of the Governor-General in Council; (b) a nominee of the Central Legislature; (c) a nominee of the provincial Governments, each to have one vote; (d) a nominee of the provincial land banks, each having one vote; (e) a nominee of those commercial banks who have contributed at least Rs. 25,000

towards the capital of land banks, each such bank to have one vote and the nominee to be approved by the reserve bank, when that comes into existence; (f) a secretary or member of the Government of India experienced in land, agricultural and financial matters. The board should have a permanent secretary whose appointment should be subject to the approval of the Governor-General in Council. It should hold its meetings at least once in three months.

9. *Re-examination of constitution and liquidation.*—The constitution of the bank should be re-examined at the end of twenty years. If it is found that sufficient capital has been built up in the shape of "B" shares, that their holders have gathered adequate knowledge and experience of the working of land banks and that it is advisable to repay the capital in respect of "A" shares on account of over-capitalization or any other cause, this should be done; but such shareholders should receive in addition to the par value of their shares half the amount of the reserve in existence at the time.

In the case of liquidation, "A" shares should have preference over "B." If after the payment of "A" and "B" shares there is any surplus, it should be divided in four parts, two to go to the holders of "A" shares and one each to the Government and the holders of "B" shares.

PART III.

THE PRESENT SITUATION IN RESPECT OF SMALL-SCALE INDUSTRIES.

CHAPTER IX.

ORGANISATION AND FINANCE OF SMALL RURAL INDUSTRIES.

360. *Alternation of work and inactivity in agriculture.*—Agriculture in the United Provinces means neither the mixed farming practised in Western Europe nor the continuous farming familiar in certain well-watered areas in Bengal. The agricultural time-table of this province is governed by the distribution of rainfall, and the separation of work in the fields into two distinct sets of operations, *rabi* and *kharif*. Thus for the agriculturist there are short spells of very strenuous work followed by periods of comparative inactivity. Two or more *rabi* ploughings, the harvesting of *kharif* crops, occasional weeding and gathering of fodder as well as *rabi* sowings occupy the peasant from the middle of August to the middle of November. Two or three waterings of the *rabi*, weeding and the manufacture of *gur* occupy him in winter. From the first week of February till the beginning of the rains work is mainly confined to the harvesting of *rabi* and its final disposal. *Kharif* is not sown until the rains have begun, which start a fresh cycle of the cultivator's activities.

361. *Number of working and idle days.*—Generally speaking, a cultivator may be said to do normal work from the end of August to the middle of April, i.e., for nearly $7\frac{1}{2}$ months every year. But even in this working period the month of February, when the crops are well grown and require neither watering nor weeding, is a time of partial idleness, except in the sugarcane tracts. After the harvesting of the *rabi* the real slack season begins, i.e., from the middle of April to the middle of June. Inactivity is greatest in May and early June. As a result of an intensive survey in Unao district it has been calculated that a peasant with a holding of three or four acres remains idle for at least 190 days, when there is no work for him either at home or outside. For the province as a whole we may estimate that the peasant is occupied, outside the more intensively cultivated areas, for not more than 200 days. This agrees with Mr. Darling's estimate of 200 working days for the Punjab peasant.

In those parts of the province where there is a deficiency of irrigation the cultivator must remain idle for yet longer periods which may extend to the whole of the agricultural season in years of deficient

and irregular rainfall. Again, agricultural employment is more continuous in the well-irrigated districts than in the canal-irrigated lands or in the *tarai*.

362. *Under-employment in small holdings.*—Further, if a holding is very small, (and the majority of holdings in the fertile and congested areas of the United Provinces are small), a cultivator's family is not fully employed, even in the busy season. In the slack season they can barely find employment in the field for one or two hours a day.

363. *Common subsidiary employments.*—As we have shown elsewhere the number of peasants who follow subsidiary occupations is larger than is commonly supposed. With these he fills up his spare time and supplements the inadequate income which he derives from agriculture. For instance, in those areas of the province where a cultivator ordinarily possesses milch cattle and buffaloes, such as the Doab, the cultivator has less spare time than elsewhere, for his dairy work. Some cultivators work as labourers, others cut grass and fuel for the nearest town, others drive bullock carts or ponies and are petty traders; yet others make ropes, weave mats and baskets. *Gur*-making, cotton ginning and tobacco manufacture are also important occupations subsidiary to cultivation in areas which grow those crops. Hand spinning and weaving are also common pursuits. The village weaver in many areas still uses cotton grown at home and spun by the peasant women. Crude tanning and the making of shoes, leather straps and water bags are the secondary occupation of the Chumars; the potters make earthen vessels and the carpenters and smiths make and repair agricultural implements, bullock carts, etc.

364. *Fishing and agriculture.*—Fishing, together with boating, is the traditional occupation of certain riverain tribes, the Kahar, the Kewat and the Mallah. It is a seasonal industry, for during the rains when the rivers are in flood and the lakes and *jhils* are overflowing, fishing becomes impossible; and at this time the fisher castes take to agriculture on a small scale. In this case, therefore, agriculture must be regarded as a subsidiary occupation to the traditional caste industry. The province possesses fish in abundance, not only in its rivers, lakes and *jhils*, but in its numerous artificial tanks and reservoirs; but the industry is disorganised, and a large demand for fish as food remains unsatisfied. There is ample scope for stocking on scientific lines; but little has been done, except by the Forest department, which has a trout hatchery in the hills, whence it stocks certain streams and lakes.

365. *The dairy industry.*—Next to his land, the peasant's principal asset is his cattle: his bullocks plough his fields, his cows provide him with a valuable subsidiary income. But his animal husbandry is crude; and he is handicapped by two serious difficulties,—a shortage of pasturage and religious sentiment. Little grazing land is available in most parts of the province; what there is has deteriorated as a result of many years of excessive use. This has reacted on the health and efficiency of the cattle, and indirectly, also of the men who own them. Yet agriculture, in India as elsewhere, is economically impossible if the fodder of the working animals must be bought; and the farm must provide it, either in the shape of fodder crops, or of the by-products of other crops, the straw and stalks (principally those of the millets) which form the bulk of the fodder supply. The result is a close inter-relation between the size of a holding, the class of crops grown, and the number and quality of the cattle employed; and it is this which accounts for the violent contrasts between the cattle in different tracts, from the costly and powerful animals on the large holdings in the western districts, where fodder crops are freely grown, to the miserable and half-starved beasts in the rice tracts of Azamgarh.⁽¹⁾ The small farmer has his own way of easing the fodder difficulty: he sells his cattle in April as soon as he can spare them, and buys new ones in June, thus avoiding the expense of feeding them at the time when fodder and grazing is shortest.

Since fodder and pasturage are deficient, it is obviously uneconomical for the farmer to preserve useless animals. But here religious sentiment intervenes. To kill bullock or cow is a deadly sin; the orthodox, we are told, often object to sale, even in the circumstances just described, because sale is usually to a butcher and leads to the slaughter-house. The result is that worn-out animals are preserved, to consume fodder that is sadly required for the better cattle. And the number of such is greatest amongst the small cultivators who can afford it least: the cattle-breeders maintain relatively few head of cattle.

Every cultivator who can possibly afford it, keeps a cow for the sake of her milk: but with a limited fodder supply, it is difficult to rear calves successfully, whilst the milk is deficient in quantity and poor in quality. The sire is often that vagrant pest, the Brahmini bull. On certain occasions, for instance at the death of the head of a family, it is the custom to dedicate a bull as an act of piety; and in old times these animals were carefully selected and of a good class. But

(1) Cf. Moreland's "*Revenue Administration of the United Provinces*," page 177.

in these days the animal dedicated is generally selected for its worthlessness; and this ancient rite, which was once a public service, is now a curse, which makes improvement of the breed almost impossible.

Nevertheless, the peasant who possesses a cow has a valuable source of income to supplement the produce of his fields. He is rarely able to sell the milk because its transport generally presents insuperable difficulties: but he sells it as *ghi*, and uses the curds and buttermilk for domestic consumption. In some parts of the province, indeed, the sale of milk is taboo'd in favour of *ghi* or butter.^(*)

366. *Special industries*.—Certain tracts have specialised in certain special lines. Carpet weaving is an important rural industry in Mirzapur district, in the villages which lie on the ancient pilgrim route to Benares, Allahabad and Bindhachal. There are 500 carpet weavers in Mirzapur city, whilst in the district there are ten times that number. Carpet weaving also exists in several villages in Jaunpur, Allahabad and Benares districts. The dealers usually supply yarn and dyes to the weaver, who gives advances to the journeymen workers. To the Hindu weaving is usually subsidiary to agriculture, but the Muhammadan carpet weaver is not a cultivator. Other important occupations are poultry-rearing in Saharanpur, Muzaffarnagar, Bareilly and Bara Banki, cocoon-rearing and tussore weaving in Mirzapur, the collection and extraction of honey in the hills, and lac culture and shellac manufacture in Mirzapur and Bundelkhand. In Mirzapur the Khatiks, Kanjars and Chamars in the villages of the Ganges valley breed turkeys,—a profitable industry. Flower gardening and scent manufacture have flourished in the past in Kanauj, Ghazipur and Jaunpur, but are now decaying; oils and *itrs* are usually obtained from such flowers as *bela*, *chambeli*, roses, *keora* (screw-pine) and *khaskhas* grass, and command a large sale in the towns of Bengal and Bihar. In the sandy *khadir* along the Ganges and other rivers, coarse grasses and reeds are found in abundance, and rope-making, making of baskets, chairs, etc., from grasses or reeds are important subsidiary industries. String (*ban*) and rope are made out of *munj* grass; the peasant women twist the *ban* and the men make the ropes. *Tat* (sacking) *pattis* are manufactured out of hemp in such widely separated districts as Partabgarh, Bareilly, Fatehpur and Pilibhit; the Pilibhit *pattis* are regarded as the best. The Tharu women in the *tarai* also make fancy baskets out of *kans* grass and wheat straw. Sheep are reared in the submontane tracts and in some districts of the north-west; and their blanket weaving is

(*) Evidence, vol. II, p. 249. See also Chapter V, paragraph 251(d), for the hypothecation of *ghi*.

famous, though it is mostly in the hands of the pastoral castes. In many districts the Gadariya women spin wool, while their husbands weave during spare hours. The homespun of Muzaffarnagar, Meerut and Almora have acquired some distinction. In the Bhotiya region of Almora the men spin almost unceasingly, whilst it is generally the women who weave. In Jaswantnagar in Etawah the women weave cloth and the men size it; but usually the men weave, and the women spin and size.

367. *Fruit and vegetables.*—The province grows numerous varieties of fruit,—apples, pears, plums, cherries, figs, apricots, peaches and oranges in the hills, mangoes, melons, guavas, jack fruit, pineapples and plantains in the plains. Many districts are famous for particular fruits. Benares, Lucknow, Bareilly, Farrukhabad and Hardoi are noted for their mangoes, Lucknow, Jaunpur and Shahjahanpur for their melons, Bara Banki, Gorakhpur and the hill districts for their oranges, Pilibhit for its pineapples, various western districts for their licheis and loquats. As for vegetables, there is scarcely a village in the province which does not produce enough for its own consumption; but market gardening on a large scale is rarely found except in the vicinity of towns.

368. *Fruit farming and preserving.*—Though the province is rich in fruit, yet outside the hills, where a few orchards are managed on scientific lines, it possesses little or nothing that can be called "fruit farming." The fruits of the plains are still grown in accordance with traditional practices: selection, breeding, storage, packing, the control of disease are all of the most primitive kind, and the fruit is more than half-wild. Yet its luxuriant yield proves that there is a future for scientific fruit farming. If it is ever to be developed, the Agricultural department must give the lead, both by demonstration and precept, and will undoubtedly need an expert staff for the purpose. But fruit farming on any large scale is rather a substitute for agriculture than subsidiary to it,—a major industry, and as such somewhat outside the scope of our inquiries. The preservation of fruit similarly is rather subsidiary to fruit farming than to agriculture. During the war, the Government started a jam factory in the hills: it sold it to a private firm some years ago, but in their hands it proved a failure. The making of jams is a minor industry in the hills: the good quality of these "hill jams" is well known.

369. *Market gardening.*—Vegetables are perishable: and the market gardener must either command rapid means of transport, or else live in close proximity to his market. This explains why market gardening on a considerable scale is common only in the neighbour-

hood of large towns. In one of our survey reports^(*) will be found an interesting account of a market gardening village near Benares, and close to the railway. The principal caste is the Koiri, famous for its vegetable and fruit farming: the average holding is less than 2 acres. But they grow little of the staple food crops, and make large profits out of fruit, vegetables and flowers. Their fruit they sell in places as distant as Lucknow, Patna and even Lahore: their flowers are bought by the manufacturers of perfume in Jaunpur and Ghazipur: their vegetables go to the Benares market. Some of their estimated profits are Rs. 175 per bigha for a lemon orchard, Rs. 80 per bigha for a field of roses or potatoes, Rs. 60 per bigha for a field of *brinjal* (egg plant) or of *falsa* (*greivia asiatica*). And for wheat the profit is Rs. 12 per bigha.

There are some who see in market gardening a solution of the problems of the uneconomic holding. It is, no doubt, true that an acre of vegetables or fruit is worth from five to fifteen times the value of an acre of wheat, and that an area which cannot support a cultivator of the ordinary staples, will be ample for a Koiri. Nevertheless, it is useless to grow garden crops unless they can be marketed; and no great expansion of market gardening is possible in the rural tracts until communications and means of transport between village and town have been greatly improved.

370. *Poultry-farming*.—During the last eight or ten years much has been done to improve the poultry of the province; but much more remains to be done in the way of propaganda and demonstration in the countryside. The United Provinces Poultry Association and the Etah Mission Farm, both of which have received government support, have already done much to improve the breed of the country fowls, and eggs produced in certain parts of the province are at least $\frac{1}{4}$ ounce larger than the eggs found in other provinces. Methods of preservation of eggs should also be taught to the peasants. The association, which has done excellent work, is in close touch with the countryside, and already poultry-farming, where it exists, is a valuable side line for an enterprising peasant. But unfortunately poultry are regarded by many of the better castes as unclean.

371. *The use of power in agricultural industries*.—Small sugar and oil presses, rice hulling plants, tanneries, dairies, tobacco and lac factories are springing up here and there, generally without any assistance from the government. The Industries department can assist materially by experi-

(*) Evidence, vol. II, pp. 133 *et seq.*

ment, by expert advice regarding machinery and processes, and by diffusing information regarding such matters as marketing and competition. Modern sugar factories, such as those in Gorakhpur, should gradually supersede the primitive implements and processes now in use in this province. The primitive *sup* with which the cultivator now husks paddy and the primitive *kolhu* in which oilseeds are pressed should both disappear in favour of power: and a co-operative society could undertake no venture more useful than the provision of an engine to run well-irrigation, sugar factories, rice and oil mills together.

● 372. *Hydro-electric development in the United Provinces and village industries.*—The Ganges Canal hydro-electric scheme which is now nearing completion will supply electricity in 62 towns having a population of 5,000 and over in the districts of Moradabad, Bijnor, Saharanpur, Muzaffarnagar, Meerut, Bulandshahr, and Aligarh. Eight towns, Roorkee, Saharanpur, Hardwar, Meerut, Moradabad, Ghaziabad and Hapur are already electrified; the rest will be electrified by the end of September, 1930.

In addition to the supply of power for domestic purposes provision has been made for a cheap supply of power for agricultural and industrial purposes. This is likely to stimulate existing industries, which at present are being worked with costly oil engines, and also enable new industries to be started. Applications for power have already been received from seven existing factories; others will follow suit. Industrial power is being retailed at the very cheap rate of one anna per unit, and landlords and tenants are taking advantage of it especially for pumping water from open and tube wells. Hundreds of applications have already been received; and it is proposed to give low tension current at the centre of any group of at least six wells, from which distribution lines will be taken to the individual wells. When the cultivators are too poor to purchase pump sets, it is proposed to instal and run these at Government expense and to charge the cultivators a small extra rate per unit for the service. To demonstrate the advantage of this scheme Government have made a successful experiment with a group of six wells which have been fitted with pumps.

In addition to these small pumping schemes canals are being constructed to distribute water which will be pumped by electricity from the Ramganga river and the Kali Nadi in Moradabad and Aligarh districts, respectively. Neither of these rivers have previously been used for canal irrigation.

In the towns of Hardwar, Saharanpur and Roorkee, which have been electrified for some time, there is already a considerable demand:

for power, both domestic and industrial. The consumption of domestic electricity is about 5·3 units per head of population and of industrial electricity about 3·3 units per head; and both demands are steadily increasing. These figures, together with the number of applications for power that are being received, show that there is keen demand for electrical power, both domestic and industrial. The scheme is highly promising: and the assistance of co-operative societies or government in providing the cultivator with credit to buy machinery when he needs it will go far to ensuring a greater and more rapid success.

The total cost of the electric supply scheme is estimated to be some Rs. 90 lakhs and that of the irrigation pumping schemes some Rs. 26 lakhs.

373. *Introduction of new and expansion of existing industries.*—Many small industries are followed in the province of a type suitable to provide the cultivator with occupation for his spare time. Many of the so-called Benares toys and lacquer wares are made at Ahraura from wood found in the Mirzapur jungles. Four families of potters at Chunar turn out the well-known artistic pottery of that place, whilst many find remunerative employment in the manufacture of *surahis*, *gharas*, *handis*, etc. Lac and *papier maché* toys are made at Budaun, Meerut, and other places; fancy pottery at Bahadurgarh in Meerut and at Nizamabad in Azamgarh; bead curtains of high artistic excellence at Soron in Etah; and glass bangles at Jalesar in Etah, Fatchpur and Firozabad in Agra. Oils and *itrs* of flowers are made at Ghazipur, Kanauj, Jaunpur and other places. Carpet weaving is a flourishing industry in Mirzapur, Jaunpur and Benares, blanket-weaving in Muzaffarnagar, Meerut and the Bhotiya region of Kumaun. Baskets and fancy fans are made at Phulpur in Allahabad district. Despite a complete lack of organisation, all these are thriving industries with established markets, which in some cases are overseas. There seems no reason why these or other similar industries should not be introduced into parts of the province where no such industry at present exists,—provided, of course, that the requisite materials are available in the locality. All these industries, new or old, stand in need of organisation. They require guidance in the selection of designs and processes, assistance in obtaining suitable tools in marketing, in the diffusion of market intelligence, in the advertising of their wares. Here again is work for the Co-operative and Industries departments,—work of the utmost value. For it is only by the introduction of new and the development of existing industries that the heavy pressure of population on the soil can be reduced, the poverty of the small holder relieved, and a higher standard of living brought into the countryside.

374. *Rural industries as stabilising agriculture.*—The Development Commissioners in England recently reported that the magnitude of the results achieved in Germany in the development of rural industries was due not so much to coercive action on the part of the State in shepherding these industries, or to any direct or indirect assistance from tariffs, as to the steady and strenuous diffusion through specially created services of advice, information and education. Many industries, however, were "created" by State-aided action; for example, watch-making in Saxony and the making of pencils in Bavaria. Thus new industries have been introduced on a large scale in those districts where such introduction was most advantageous. A system of farming combined with industry, which gives regular employment throughout the year, enables the agricultural countries of Europe to maintain a density of 200 to 300 persons to the square mile. In our province, where the density is from 500 to 900 in the river valleys, and where agriculture cannot normally employ the population for more than seven months in the year, the need of rural industries as a subsidiary occupation to agriculture is far greater. For a stay-at-home population like ours enforced idleness during a year of scarcity is a paradox, which indicates that lack of balance of occupations in the Indian village which Famine Commissions have repeatedly sought to remedy.

375. *Finance of small rural industries.*—The finance of these small rural industries is not distinguishable from rural finance generally. The moneylenders are the same and so are the methods, and this will continue in any scheme of reorganisation. The co-operative movement, whether its energies are directed to supplying the credit or the general needs of the peasant, must include within its scope the subsidiary as well as the main rural industry, for the two are inseparable.

CHAPTER X.

ORGANIZATION AND FINANCE OF SMALL URBAN INDUSTRIES.

376. *Decline of the small industry.*—One of the unfortunate features in the economic history of the province is the decline of small industries. Several factors have contributed to this decline, but the most important is that handicrafts have remained unaffected by modern progress whether in applied science, in economic organisation or in means of transport. Even now, in those areas where the market for the handicraft products is limited by inadequate communications or insufficient demand, there has been little differentiation of function, and the artisan still purchases his own raw materials, works for the local market and himself sells his own goods. It is true that, thanks to the absence of competition, to the limited needs of the consumers, to the relative simplicity of the economic organisation, and to the fact that he has usually some subsidiary source of income (generally agriculture), the cottage artisan, working on his account with his primitive tools, here and there with the help of apprentices, generally with no help save that of his family, has been preserved from actual extinction. But if the craftsman still exists, the craft itself is often moribund.

377. *An illustration from weaving.*—In the villages the artisan lacks credit and marketing facilities, and his products seldom improve beyond a certain standard. Nearly every artisan works on his own account. There is little division of labour. Whether the artisan plies his own craft throughout the year or not depends upon the demand for his goods in the village or in the periodical markets, and the amount of capital that he can secure from the village moneylender. On the other hand, organisation improves with superior craftsmanship and the products command a wider market. This may be illustrated from handloom weaving, which supports nearly a million of people in this province. The village weavers obtain homespun yarn from the women or, occasionally, in the periodical markets, and charge no more than the price of their labour for the *garha* cloth which they make. Cloth which is not sold to the village is brought to the market and sold at whatever price the weavers can secure, simply because they cannot wait. If the cloth remains unsold, the weavers must remain idle for lack of money to purchase yarn.⁽¹⁾ In the important centres of hand-weaving industry, such as Tanda, Moradabad and Bareilly, the yarn and cloth

(¹) Coarse cloths, *garha* and *gazi*, are woven in all plains districts. The finer cloths are woven mostly, though not altogether, in the eastern districts, partly for climatic, partly for historical reasons.

dealers finance the artisans in the cottage. The weaver purchases yarn from the dealer on credit, and sometimes gives him woven cloth. Sometimes he sells the cloth himself, either in the market or to a cloth dealer; sometimes he hands over his cloth to the yarn dealer and so pays for his yarn in cloth. Sometimes he borrows not from the dealer in yarn but from the dealer in cloth, repaying him in cloth. In Tanda and Mau, and also in other centres, the master artisans sometimes employ a number of journeymen weavers, supplying them with looms and raw materials, and paying them piece wages. They sell the cloth to the dealers, with whom they keep a running account, or to the market directly.

378. In the weaving industry the middleman, whether he be yarn or cloth dealer or *karkhanadar*, becomes indispensable because of the isolation and poverty of the artisans. The same is true of many urban crafts—different branches of wood and iron work, cheap pottery, mat and basketmaking, shoemaking, bamboo furniture, dyeing and printing, cotton and wool spinning and weaving. As the industries develop variety or distinctiveness, the middleman slips in and supplies the artisans with raw materials with the object of obtaining cheaply their manufactured goods. This, no doubt, ultimately leads to the extension of markets; but isolated and unrelated industries lend themselves easily to exploitation by middlemen.

379. The above tendency is universal. In a large town or city there is scope both for an extended market and large variety of production, involving specialisation in industry and in trade. The patronage of the nobility, the desire for luxuries among an ease-loving public, the religious obligation to purchase particular varieties of goods, the hereditary skill and dexterity of particular castes or groups of artisans, all these have contributed to the development of handicrafts and industries of luxury. But the economic status of the artisans has not improved; indeed, the greater the demand for art wares or the cost of their raw materials, the stronger is the grip of the middleman or the capitalist on the artisans and their work.

380. *Types of middlemen in urban industries*—(a) *The itinerant dealer*.—There are various types of middlemen. There is, firstly, the itinerant dealer who supplies raw materials to the artisans. The most familiar instance is the trader who supplies yarn to the weaver in his cottage, and gives him piece wages or deducts a commission when he takes over the finished product. In blanket-weaving the dealer supplies ready spun yarn to the *kamalia* and collects from him the finished goods. Even in carpet-weaving dealers and firms usually advance cash and

sometimes yarn to the weaver, and afterwards take over the finished product. Similarly, the trader in needlework and embroidery goes to the homes of the women workers, supplies them with cloth and thread and pays them wages at rates previously arranged. Such dealers either work with their own capital or are agents of larger dealers. Much of the fine embroidery (*chikan*) of Lucknow and some part of its gold and silver thread work (*gotu*) is controlled by one or other of these classes of middlemen.

381. (b) *The karkhanadar as (i) his own financier and (ii) as contractor.*—Sometimes again the middleman is himself an artisan who has grown rich and employs his fellow artisans either in his own establishment, the *karkhana*, or in their homes. In Benares, for instance, the *karkhanadar* weaver supplies the artisans with the raw materials, gold and silver threads, yarns and dyes, and even with the looms, when they work in the *karkhana*. Some *karkhanadars* are also yarn dealers. Similarly, in the metal industry of Moradabad and Mirzapur the *karkhanadar* supplies the metal sheets and implements to the artisans, whether they work in their own cottages or in his shop, and himself usually buys these sheets from other middlemen on credit.

382. In Lucknow in the *zardozi*, *kamdani* and *chikan* industries the *karkhanadar* is similarly well established. He supplies materials to the craftsmen; in the case of the first two crafts they usually work in his establishment, whilst most *chikan* workers work at home. These materials again are supplied to the *karkhanadar* by the dealers or *mahajans*. But it is the *karkhanadar* who undertakes all the risks of the industry. The implements are few and simple—a needle and a pair of scissors; each artisan brings these with him every morning to the shop. But the heavier implements such as the *karchop*, the stool or the hand machine for embroidery work are appurtenances of the *karkhana* itself.

383. Similarly, in Agra there are *karkhanas* for the making of shoes, carpets and stoneware, where the artisans are employed by the *karkhanadars* at the latter's risk and responsibility. The large dealer here does not usually finance the industry, but only buys the finished products at wholesale rates. Sometimes the *karkhanadar* himself is in debt to the dealer, and being obliged to sell his finished goods to his creditor, cannot obtain a fair price.

384. The position is, briefly, that the *karkhanadar* in some crafts combines the rôles of master artisan and financier, and in others is a mere contractor. Indeed, in no handicraft or industry where the cost of materials is high can the artisan or the *karkhanadar* do without the financial assistance of the large dealer or the *mahajan*.

385. (c) *The large dealer (i) as financier.*—The large dealer or the *mahajan* is indispensable in the financing of such industries as the silk-weaving, the gold and silver wire-drawing and the brass and copper work of Benares or the gold and silver embroidery of Lucknow. Both in Benares and Lucknow middlemen of this class usually supply the raw materials to the *karkhanadars* or to individual artisans; but the artisan who works at home is rare in such trades. The materials are too costly for his pocket,—the silk of the Benares silk-weaving industry, the silk muslin of Lucknow's *kamdani*, the satin and velvet of *sardozi*, with (in each case) gold and silver wire. Moreover, unless he has a large family to help him, his progress will be slow; and delicate material is not improved by long handling. The work, accordingly, is concentrated in *karkhanas*, whereby the *mahajan* gains a distinct advantage. His risk is reduced because the *karkhanadar* bears all losses due to unpaid advances and wastage of raw materials, and also ensures a standard quality in the outturn. The workshop system is preferable in these industries, not because they require a more elaborate division of labour than is possible in the home, but because it ensures greater economy in the purchase of the raw materials, greater efficiency in their handling, and control of output to correspond with a seasonal demand. It is these advantages which explain the widespread tendency for these industries to drift from the home to the small workshop.

386. *The large dealer (ii) as a co-ordinating agent.*—In those industries, however, where the processes of manufacture are so specialised that they cannot be undertaken by the same set of artisans either in their homes or in any *karkhana*, the large dealer who supplies the artisans with the raw materials co-ordinates the different branches of production. His functions, in short, here combine those of the financier and the *karkhanadar*. The brass and copper industry, for instance, is organised in various ways in different cities,—Benares, Mirzapur, Moradabad, Farrukhabad and Lucknow. Sometimes the *mahajan* supplies the raw materials to the *karkhanadar*, who pays his own workmen, usually at piece rates, and obtains payment from the *mahajan* for the finished article by weight. Sometimes the *karkhanadar* is his own capitalist, conducting his business with his own money and selling his wares to dealers and merchants. Sometimes, again, the artisans work at home, obtaining the raw materials either from the *karkhanadar* or the large dealer. In Moradabad and Lucknow, however, the manufacture of the various parts of various utensils, together with their engraving, tinning (*qalai*) and polishing form distinct operations, each carried out by a different family of artisans; and a vessel passes from

one family to the dealer, and from him to another family, until it is completed. In Farrukhabad, on the contrary, the same family of artisans carries out all the processes from moulding to polishing.

387. *Causes of the prevalence of middlemen.*—The control of the large dealer over an industry, therefore, depends not merely upon the cost of materials but also on the need for co-ordinating specialised functions. A specialist can only command special remuneration if he forms an integral part of an organised whole. No doubt the *mahajan*, by regulating the supply of raw material in accordance with the demand for the finished article, can control the conditions of the specialist's employment to his detriment; but without the *mahajan's* intervention production would be disorganized and could not command the sales which an organised industry can secure.

Another type of industry which only a middleman can handle is that which involves lengthy technical processes, for no small artisan can afford to lock up his capital for so long. Then the *mahajan* or *karkhanadar* intervenes with his workshop, and the artisans work on contract wages. An example of such an industry is calico-printing. In Lucknow and Benares the *karkhanadar* himself finds his own capital, employs the artisans on piece wages, and disposes of his products at wholesale rates to large dealers. In Farrukhabad the whole of the calico-printing trade is in the hands of the Sadhs, a sect of Hindus. The Sadhs employ the artisans, both Hindus and Muhammadans, and deal directly with the large wholesale firms of London and Paris. Similarly, in Tanda the industry is in the hands of the *karkhanadars* who employ the artisans on piece-work wages. Though some of them have their own shops in the bazaar the trade is mostly in the hands of large dealers.

388. Yet another cause of the prevalence of the middleman system is the seasonal nature of the industry. All crafts, such as *zardozi*, *kamdani*, *chikan* and calico, labour under the special disadvantage that they show an exaggerated alternation of overwork and unemployment due to the fact that they satisfy occasional or seasonal needs. For instance, it is only during the winter that there is any demand for silk and cotton *lihafs* (quilts); it is only during the summer that there is any demand for *chikan topis*, *dupattas* and other light wearing apparel. Festivals and the marriage season alone can create a brisk demand for *zardozi* and *kamdani* work. For the rest of the year the demand is at best slack. Thus the workers who have no staying power are completely under the thumb of the *karkhanadar*, who keeps them alive by advances during the dead season when the *karkhanas* are

not working. It is this which is the principal cause of the prevalence of *baqidari* (arrears) in these seasonal trades. Irregularity of employment, again, weakens the habit of saving amongst artisans who are mostly illiterate; whilst the *karkhanadar*, whose financial position is rarely such that he can afford to lock up his capital during the slack season, is in his turn entirely dependent upon the *mahajan*.

389. *Relations between karkhanadars and the workers.*—Thus the *karkhanadar* in *zardozi* and *kamdani* in Lucknow, Bareilly, Agra and Benares, who has risen to the position of employer from that of an ordinary artisan, may be regarded as a contractor who gets his supplies of cloth and wire from the *gotawalas*, who receive his products and appropriate a large part of the profits. As an example, we quote a case in a *kamdani* shop in Lucknow where a *gotawala*, having supplied the raw material worth from Re. 1 to Re. $1\frac{1}{2}$, paid a *karkhanadar* 12 annas per *tola* for work which he sold at Rs. 2 to Rs. $2\frac{1}{2}$ per *tola*. On the other hand, the *karkhanadar* paid to the artisan no more than 10 annas per *tola*.

390. Secondly, there is small room for art in a system in which the wages paid depend on the weight of the gold or silver wire used in the work. It is true that *salma* embroidery, if it involves greater skill, also involves a greater weight in the wires worked; and thus there is an automatic adjustment of skill to wages. But the level of craftsmanship must always fall when the *gotawala* pays for his products on a standard of weight only, while the *karkhanadar* in his turn remunerates his employees on the same basis, irrespective of quality. The result is a large volume of production of an average quality, which offers no scope to individual art and workmanship.

391. Both in *zardozi* and *kamdani* work the *karkhanadar* gives advances to his workmen, who cannot seek employment under another until the debt is repaid. To some extent, therefore, the artisan is in a state of economic bondage. On the other hand, these advances reduce the inconveniences of seasonal unemployment. They are given only to the regular hands. It is only in cases of emergency that an employer, when engaging a fresh hand, will pay up the latter's debt to his former employer and repay himself by deductions from wages. The artisan has no reason to complain of ill-treatment at the hands of his employer, who keeps him going by these advances,—on which he charges no interest. Possibly the employer makes this up on his wages, but, at all events, the artisan gets better terms from his employer than he would from any *gistia*.

392. *A chain of types.*—Speaking of the handicraftsman in France Arthur Fontaine, the well-known authority on the small industries of that country, wrote: "Like vegetable and animal species the various economic categories are connected with each other by intermediate links which cannot be classified with any certitude and which help to make of the series of types what is practically a continuous chain." The same chain can be observed in this province.

(1) There is the artisan who deals directly with the consumer and works with material which the latter has supplied on a piece-wage system.

(2) Other artisans receive advances of cash or raw materials from itinerant middlemen who take over the finished products. This is the most familiar type. Among industries conducted on this system may be mentioned weaving of all kinds, including carpet-weaving in Mirzapur and other places, blanket-weaving in Muzaffarnagar and Najibabad, ebony-carving at Nagina, *chikan* work in Lucknow, and gold and silver embroidery in Benares and Lucknow.

(3) Another type is the artisan who works in a *karkhana* under a master artisan (*ustad*), being supplied with raw materials and often with tools. The *karkhanadar* may himself be dependent on the middleman or large dealer, or he may be his own financier and deal directly with the general public. This organisation is commonly found in shoe-making, artistic pottery, wood-carving and silk, carpet or blanket-weaving. Whenever a cottage industry is in the hands of a particular caste, it easily assimilates itself to the workshop system; the *karkhanadar*, an artisan himself, provides the necessary tools, employs his caste-fellows on piece wages, and himself arranges the sale of the finished products. It is a survival of the mediæval guild.

(4) In some crafts the *karkhanadar* has not risen from the artisan class, but is a mere capitalist who has invested his savings in the business. Such is the position of the big furniture dealers in Bareilly who run workshops in which hundreds of carpenters are employed on piece or daily wages.

(5) Again, the *karkhanadar* may become the contractor or sub-employer working under the large dealers, who advance him raw materials and collect the finished goods manufactured by the artisans employed by the former. This system is found in the lace, the *gota*, the gold and silver wire and allied industries in Agra and Lucknow; to some extent in the silk-weaving industry of Benares, in the brass,

iron and copper work industries in most centres, in the durrie-weaving of Agra and Farrukhabad and in the calico-printing of Farrukhabad, Lucknow and Tanda.

(6) Lastly, there are industries in which there is no *karkhanadar*, but the dealer or middleman supplies raw materials to the various branches of the industry, finances and co-ordinates the manufacturing processes from stage to stage, and finally disposes of the wares. This kind of organisation is found in certain metal industries.

393. *An illustration from embroidery.*—In recent years there have been important changes in the organization of the *chikan* industry, which is carried on in Agra, Meerut and Amroha, as well as in Lucknow, its traditional and still its principal home. It used to be a workshop industry; but with changing fashions the demand has decreased, the quality of the work has degenerated (for which degeneration the invention of a stitching machine some years ago is partly responsible); most *karkhanas* have been closed, the few which remain are of small importance; and the control of production has passed, almost entirely, into the hands of the middleman, the agent of wholesale and retail dealers, who deals directly with the artisans, most of whom are women and work at home.

394. The economic status of the worker has suffered in this process. In the first place the workmen of a *karkhana* can unite against their employer, if need arises; but neither the *purdanashin* Muhammadan women in Lucknow, Amroha and Agra nor the Khattri and Kayastha women in Meerut who work in their own homes, with each of whom the middleman deals individually, can resist effectively if the middleman, by this subterfuge or that, should reduce their wages.⁽²⁾ Secondly, the *purdah* system makes it difficult to adjust wages to standards of craftsmanship. Thirdly, there are in the industry both full-time and part-time workers. The former are principally men, the latter principally women. The spare time workers are satisfied with almost any remuneration, which on the one hand brings down the wages of the full-time workers and on the other compels the part-time workers to overstrain themselves by labouring long hours at night. Fourthly, there are a number of workers amongst the peasant women in the villages around Lucknow who are content with even lower wages than their sisters in the city. The result is a relentless competition, which leads to weary hands and half-blinded eyes, possibly even to disease and death. The fine and delicate workmanship which *chikan* embroidery demands involves

(2) A similar loss of economic status, following on the decline of *karkhana* production, has occurred in the *sardari* industry of Lucknow and Benares, the silk and *leis* industries of the latter place.

a terrible waste of human material. *Lastly*, the status of the *chikan* workers is affected by certain peculiarities of the industry itself. Several kinds of stitches are often required for the same piece of embroidery, whilst few workers know them all. The result is that the same piece of work passes from hand to hand before it is completed. In the *karkhana* that would make little difference since every individual artisan would be able to gauge for himself the value of his own work and see that it was paid according to its value. But in the present circumstances no single worker, save the last, ever sees the finished article or can estimate the exact importance of his contribution to it. The middleman, therefore, has an opportunity to exploit his ignorance, and is said to take full advantage of it. The quality of the work is also affected by this peculiarity. Plans and patterns are printed on the pieces. The pieces themselves are shaped by one hand and stitched by several different hands in succession. Though the result is undoubtedly an increased outturn, yet the work becomes purely mechanical. Craftsmanship is reduced to a minimum and the craftsman from an artist has become a mere stitching machine.

395. In short, the *chikan* industry, which employs some 50,000 women and 5,000 men in Lucknow, has sunk from its former high position amongst the handicrafts, and is now the most notable instance of disorganised industry in the country. The workers, scattered about the city, are hopelessly subservient to the middlemen, who secure employment for them and dictate the standard of production and the scale of wages with little regard to the worker's skill or dexterity. Even for the best pieces of work, undertaken for firms in Calcutta and Bombay, the average wage would not usually exceed Rs. 10 or Rs. 15 per month. The disorganisation of the industry is reflected also in the different methods by which the workers are paid. Thus there are some merchants who employ workers on a monthly salary. Others pay on an average calculation of sets of articles; others, again, pay according to the number of threads inserted. Occasionally workers embroider pieces at home in the day-time and hawk them about the streets in the evening, selling at prices which may or may not be remunerative.

396. *The economic status of the artisan.*—The various types of industry which we have just described differ principally in the position of the employer; but the position of the artisan is much the same in every industry. Whether he pursues his craft at home or in a workshop, whether that craft is regular or seasonal, whether he is capable of completing all the processes of pro-

duction himself or makes a speciality of any single process, he is not as a rule working on his own account, but works for and at the behest of some middleman, whether he be wholesale dealer or *karkhanadar*. It is on this middleman that he depends both for the supply of his raw material and for the marketing of the finished article. He may be master of his own time, but whether that time is fully occupied or not depends on the requirements of his employer. Whilst the middleman prospers, he must regard himself as lucky if he secures a living wage.

397. *Importance of some small-scale industries.*—There are still small industries in this province which do a large volume of business. This is contrary to the popular belief, which is apt to regard cottage industries as doomed to extinction by large scale production. The principal cause of this belief appears to be the pessimism engendered by the decline of handloom weaving,—once one of the most important industries in India—, as a result of competition with the mills. Yet that decline is not so great as is often supposed. Even at the present day the cottage weaver is said to produce nearly 30 per cent. of the cotton cloth consumed in this province; and though this proportion may be less than in other provinces, yet the industry is not even dying, let alone dead.^(*) Indeed, the cottage weaver can hold his ground against the mill both in the finer and coarser cloths. Competition arises only in respect of cloths of medium quality. The handloom in fact not only produces goods which the mills cannot produce, but uses yarn which is useless for the power loom, and so consumes the surplus stock of yarn. Cottage weaving is still the most important of subsidiary industries in the rural areas, and gives employment to the largest group of artisans.

398. The pessimism born of the decline of handloom weaving is unfortunate, for till recent years it has generally stood in the way of any constructive efforts to organise cottage industry generally. Yet much can be achieved by State aid and supervision, as German experience proves. In that country, thanks to the State's economic policy, small scale industries employ about two-fifths of the entire industrial population and more than 90 per cent. of the industrial establishments. That policy covers not only problems of machinery but of marketing and produce, not only technical but commercial guidance. It has to be admitted that the conservatism and illiteracy of our artisans are serious difficulties in the way of modern organisation and progressive propaganda. It is also true that of recent years the Industries department has done much to improve technical and industrial training. But if our small industries are to become what they have been in the past, much still

(*) Mukerjee, *Foundations of Indian Economy*, pages 166—168.

remains to be done. This is especially true of the artistic side of industrial education. There has been a tendency to concentrate on the commercial aspect, to teach the artisan how to produce the thing that will sell rather than the thing which is worth buying. The high standards of Indian craftsmanship have been lowered of recent years as a result partly of the artisan's own ignorance, partly of the deterioration in public taste. The beautiful old traditions of Indian art are being forgotten; its beautiful old designs are being replaced by meretricious trash, for such trash appeals to the foreign tourist, seldom able to discriminate between good and bad, who is satisfied with any scheme of ornamentation so long as it contains a sufficient number of gods and goddesses, of elephants and tigers and lotus flowers. It only remains for some enterprising merchant to inscribe on his wares the words "a present from Benares" to fill the cup of the degradation of Indian art.

399. The Provincial School of Arts and Crafts is at present the only institution available for artistic education. One of its principal aims should be to teach artisans not only the old designs, but also new designs, provided that they conform to old traditions, and to supply the trade with such designs. In the past, indeed, the school has realised its responsibility in this matter, and has had no small measure of success in discharging it. Many artistic patterns which are now popular in the trade were originally produced in the school. We understand, however, that of late this important function has been somewhat neglected. If our information is correct, we can only earnestly recommend that the school should once again begin to think in terms of art rather than in terms of profit; for it is only thus that the many art industries in the province can be rescued from their state of present stagnation and the threat of ultimate decay.

400. *Co-operative societies and sale organisations.*—In every country the chief want of home production is a central buying and trading organisation. The small industrialist, like the small cultivator, is apt to be exploited by middlemen and moneylenders, but the former has a further disadvantage of his own in that he must face competition with large-scale production. Co-operation, whether in respect of the supply of credit, the purchase of raw materials and tools, or the disposal of his wares, is even more necessary to him than it is to the peasant. In this matter India may learn valuable lessons from certain continental countries. In Germany there are associations of small producers which buy raw material for their members in common and sell their products in common. Rural industries in Switzerland, again, are

organised on the commercial side into trading corporation with branches in the larger towns. Both in Brussels and Palermo there are co-operative societies of a kind specially suitable for the *chikan* industry. In the former town there is a co-operative society of women workers called "le labour féminin" which consists of poor women of the middle classes who produce various objects of art at home and sell them in a shop which is financed by philanthropists. Its capital is 50,000 francs, and the workers receive a dividend on their shares. The women's co-operative society of Palermo consists of war widows who make lace, linen clothing and ornamental chairs. The members receive not only a dividend on their shares, but a bonus on the sales of their wares. For workshop industries, where the master craftsman secures orders and employs artisans, it would be possible to imitate the co-operative production society of Germany or Italy.

401. We invite the Co-operative department to consider the possibility of imitating these models. There were co-operative societies of artisans in this province as early as 1912, but most of them have failed. The cause of their failure were :—

- (1) they made no attempt to organise sale of products;
- (2) the artisans were ignorant of all co-operative principles;
- (3) there was no attempt to guarantee the quality or the standard of craftsmanship; and
- (4) the society could not compete with the middleman because the artisan was dependent on the latter for the sale of his goods and could not, therefore, sever his connexion with him.

Yet such societies have been organised and are working in other provinces, with fortunes which vary according to the elasticity of the society itself and the conveniences which it affords to the members. We can have no doubt that co-operative societies both for the supply of credit, raw materials and tools and for the disposal of products, if organised on sound lines, are capable not only of increasing the prosperity of such industries as still flourish, but of reviving those which are moribund, provided that the artisans have first been educated in the principles of co-operation. We attach especial importance to the organising of sales. We recommend this field of activity to the consideration of the Co-operative department.

402. *Industrial banks.*—It is obvious that co-operative banks which have been organised for the financing of cultivators will be unable to understand the circumstances or satisfy the needs of a smaller artisan

who has few assets save his manual skill and honesty. Industrial credit differs considerably from agricultural credit. It is for this reason that the task of financing the co-operative societies of artisans or the *karkhanadars* must be entrusted not to the present co-operative banks, but to some type of industrial bank. Here again the experience of European countries is instructive. Continental banks freely lend money to artisans on invoices, labour bills or any prospective claim that is sufficiently recognised. In Switzerland banks are willing to advance money to silk weavers on cocoons, secured by an undertaking that the spun silk shall not leave the spinner's house till the debt has been repaid. In Germany the co-operative banks render generous assistance to artisans of all kinds.

403. We have carefully considered what type of industrial bank is best suited to the needs of the province. We understand that the Central Committee will consider this question in connexion with the credit needs of the larger industries. The first question is whether the same bank can also be entrusted to look after the needs of smaller industries. On this point we need only say that, provided there are sufficient safeguards to ensure that the interests of the smaller industries are not sacrificed to the needs of the larger, then we consider that it will make both for efficient management and economy to have a single bank. A further question then arises, whether there should be one industrial bank for the whole of India with provincial branches or separate provincial banks. That is a matter which we are content to leave to the Central Committee.

404. If, on the other hand, it is considered desirable that the financial arrangements for big and small industries should be in different hands, it will be necessary to establish a separate provincial bank to deal with the latter. We anticipate that such an industrial bank will *mutatis mutandis* closely resemble the provincial co-operative bank both in its constitution and its relations to its clients, whether these are societies or individuals. And since the constitution of the provincial co-operative bank has been described in an appendix to Chapter VI we have not thought it necessary to frame one for the proposed industrial bank.^(*) Whether the bank be all-India or provincial, whether it deal only with small industries, or both with large and small industries, it must necessarily, sooner or later, create branches at convenient centres and make agency arrangements in others. These

(*) The two most important differences are (i) that the Director of Industries and the Superintendent of the Emporium would be directors of the industrial bank, and (ii) that the bank should work through the agency not only of co-operative societies but also of other banks and societies and even of suitable individuals.

branches will only come into existence as the demand for the services of the bank increases. The constituents of the bank should be the co-operative artisan societies, middlemen and *karkhanadars*, and any individual whose industrial operations are of sufficient importance. The relations between an artisan society and the industrial bank should be similar to those at present existing between a co-operative society and a district bank. The bank, of course, should be in close touch with the provincial emporium and marketing associations, so that it may ascertain the commercial possibilities of any particular craft before deciding what its credit policy should be towards that craft. It would, of course, refuse assistance in any case where assistance would be useless or involve unnecessary risk. It would, for instance, refuse to help any obsolete industry. Finally, the bank should keep an account with any central or reserve bank that may be brought into existence, and thus link itself and its members to the credit system of the country.

405. *The promotion of sales and the provincial emporium.*—The Arts and Crafts Emporium at Lucknow has done a good deal to establish contact between the products of our cottage and village industries with their markets not only in India but abroad. There is no doubt, however, that it could expand its activities in various directions. *Firstly*, it should be used as a bureau for imparting commercial and technical information both to the industries themselves and to the trade. *Secondly*, it should assist in the introduction of approved designs prepared by the School of Arts and Crafts. *Thirdly*, it should be responsible for the adequate advertisement of all artistic products. *Lastly*, it should act as the headquarters of a system of sale *dépôts*, of which there should be one in every industrial centre in the province, and possibly also in the major towns of other provinces, and even abroad such *dépôts* may be branches of the emporium. They may be shops managed by Government or they may be entrusted to the care of existing firms on a commission agency basis. We are content to leave details to be considered and worked out by the Industries department.

406. *Advertisement.*—No industry can hope to find a sale for its wares unless it brings those wares to the notice of possible customers. If some of our industries, such as the calico-printing of Farrukhabad, the silks of Benares and the carpets of Agra, can now command a market in London and New York, it is due to the advertisement which they received at the Wembley Exhibition in 1924. The emporium has also been responsible for a certain amount of successful advertisement; at one time it introduced no less than 350 new designs in the brassware industry, and these are the designs that have been most popular in foreign markets.

since the Wembley Exhibition. At an earlier date, shortly after the war, the predecessor of the present emporium (which was attached to the School of Arts and Crafts) was receiving orders from as many as 21 foreign countries. What has been done before can be done again. Nevertheless, advertisement has its dangers. Advertisement brings orders which, unless production is organised, will not be fulfilled at all or fulfilled unpunctually. Organisation must therefore come first, advertisement may follow when it is safe to advertise.

PART IV.

INDIGENOUS FINANCE.

CHAPTER XI.

A—INDIGENOUS BANKS AND BANKERS.

407. *Definition.*—As has been pointed out already terminology of indigenous credit is so indeterminate as to make clear description of the subject a difficult matter. Especially, many style themselves "bankers", who on any ordinary interpretation of the word have no right to the name. The distinguishing mark of a "banker" is that he receives deposits from others for safe custody, and uses them in his own or others' business. And to avoid the confusion arising from the vagueness with which the term is used, we propose to deal with the subject of "indigenous finance" in two parts, viz., "indigenous Banks and Bankers" and "Other Indigenous Credit Agencies." Any person or private firm receiving deposits is a "bank" or "banker" dealt with under the first section; all those who do not invite or accept deposits are dealt with under the following section.

408. *Brief history.*—The system of indigenous banking in India has its roots in the ancient past. Moneylending with definite rates of interest must have existed over 2,000 years ago;⁽¹⁾ and even at that early period moneylending occasionally meant usury. Then, as now, usury was condemned, and indeed it was specifically forbidden to the highest castes. The Vaishyas, however, were permitted to charge more than the prescribed rates: they were traders as well as moneylenders and the modern combination of moneylending with other business, to which we have alluded elsewhere, is as old as the fifth and sixth centuries B.C.⁽²⁾ The habit of hoarding surplus wealth appears to have existed much before the beginning of the Christian era. "Capital wealth was hoarded, either in the house—in large mansions over the entrance passage (*dvāra kottahaka*)—under the ground, in brazen jars and under the river bank, or deposited with a friend. The nature and amount of the wealth thus hoarded was registered on gold or copper plates."⁽³⁾

(¹) See *Vedic Index of Names and Subjects*, by A. A. Macdonnell and A. B. Keith, 1919, vol. I, p. 109 and *Cambridge History of India*, 1922, vol. I. Also *Sacred Books of the East*, vol. II, (edited by F. Max Müller 1879, pp. 238—41).

(²) See *Jatakas*, English translation from the Pali text, edited by E. B. Cowell 6 vols., 1895—1907 and *Buddhist India*, by T. W. Rhys Davids, 1903.

(³) L. C. Jain, *Indigenous Banking in India*, p. 8.

409. *Ancient banking.*—That moneylending had become an important element in the economic life of the people before the end of the first few centuries of the Christian era, is clear from the treatment of the subject by certain celebrated Hindu law-givers,—Manu in the second or third century, Visṇu in the third century and Yajñavalkya and Narada in the fourth and fifth centuries A.D. What is less clear, however, is the time and manner of the transition from the “moneylending” to the “banking” stage. But judging from certain references in the works of Manu to deposits, there seems little doubt that deposit banking did exist at least as early as the second or third century A.D., although the habit of entrusting valuables for safe custody to friends existed much earlier.⁽⁴⁾ There appears, however, to be no mention of the payment of interest on deposits at that period.

410. *Banking in the Muhammadan period.*—No account is extant of indigenous banking between the sixth and the sixteenth centuries, but stories are current of the use of *hundis* as early as the twelfth century A.D. The importance of bankers during the Moghul period and the part they played in the early settlement of the British in India are so well-known to all students of Indian history that they need no more than a passing mention. The *Jagat Seths* (world bankers) of the seventeenth and eighteenth centuries, for their power and influence, are comparable with any private banking house in any other country; and indeed, they seem to have fulfilled many of the functions of a central bank—essentially a modern institution.

411.—*Contact with the West.*—Such was the power which the banking houses wielded in the Moghul Empire, at a time when it was at its zenith, and the foreign traders first came to India. But the days of that empire were already numbered, and in the downfall and disorder which followed, the bankers of the country suffered. Some of them, it is true, helped the English with money to fight their wars; and we have it on the authority of the Reverend J. Long⁽⁵⁾ that the famous banking house of the *Jagat Seths* “suffered much in our cause”. and were amply rewarded. It is also true that in accordance with an existing practice the East India Company for a time used the bankers to collect land revenue.⁽⁶⁾ But these factors only delayed and could not stop the decline in their business and influence which had set in.

⁽⁴⁾ See the quotation in the preceding paragraph.

⁽⁵⁾ *Selections from the Unpublished Records of Government*, vol. I, for the years 1748—1767 by Reverend J. Long, Calcutta, 1869, p. xli.

⁽⁶⁾ *Bengal District Records* (edited by W. R. Firminger, Calcutta, 1914, etc.), Rengpur, vol. I (1770—1779), pp. 15-16.

The practice of collecting land revenue through indigenous bankers was found unsatisfactory, and was abandoned about 1778.⁽⁷⁾

412. With the decline of indigenous bankers and the gradual progress of English trade and dominion, a need arose for new credit institutions. This led to the establishment both of government treasuries and subtreasuries and of the early European banks in India.⁽⁸⁾ We do not propose to trace the growth of these institutions, save to note, as a matter of regret, that the new European banks never allied themselves to the old indigenous bankers. The two remained separate, because they served two distinct functions. The new banks catered for the credit needs of the foreigners and their trade and the old bankers continued to play their traditional part in the economic life of the inhabitants. But this aloofness has, in the long run, been to the disadvantage of both these credit agencies. "The indigenous banker has continued in his old ways without profiting from new experiments. His technique has not been developed, and in its higher branches his craft is obsolescent. The new banking institutions, on the other hand, have not been able to assimilate the time-honoured traditions of the soil on which they are planted. They have not entered into the lives of the people by penetrating into the villages, which hold the teeming millions of India."⁽⁹⁾

413. *Classes of bankers.*—The methods of indigenous bankers vary greatly; some work on almost the same old lines as their predecessors used to do hundreds of years ago, others transact business in much the same way as a modern joint-stock bank. They include *kothiwals*, *sarrafs* and a small number of *arhatias* who obtain accommodation in times of need from their relatives and friends, and whose deposits are solicited loans rather than real deposits. We have already given a full description of the various kinds of indigenous bankers in an earlier chapter, and here merely recapitulate briefly the main points of that description.

414. *Kothiwals.*—The *kothiwals* who represent the most important and respectable class of bankers transact business on a large scale, but with methods that vary from place to place. For instance, the activities of the *kothiwals* in Moradabad and Thakurdwara lie mainly in advancing on the *qist* (instalment) system, whilst the *kothiwals* of Allahabad and Lucknow grant big loans on the security of mortgages, ornaments, generally of gold, goods, or even on personal security to persons

(7) *Bengal District Records*, p. 33.

(8) See *Early European Banking in India*, by H. Sinha, 1927.

(9) L. C. Jain, *Indigenous Banking in India*, p. 26.

of influence and standing. As bankers they, of course, receive money on deposit and employ bills as instruments of credit both for financial and remittance purposes.

They are usually owners of land and house property as well as bankers, which is their principal occupation. At the present time they prefer mortgages on property to any other form of security, partly because the security is good, partly because money so invested earns interest for twelve months, whereas money advanced to traders is active only during the busy seasons and lies idle for about five months of the year.

415. The *sarrafs*.—They are of two kinds:—

(a) Big *sarrafs*, sometimes also called *kothiwal sarrafs*,⁽¹⁰⁾ who, as mentioned in an earlier chapter, advance large sums of money to landlords on the mortgage of their *zamindari*, and to traders and smaller *sarrafs* on *pronotes*; discount and issue *darshani* and *muddati hundis* (sight and usance bills) of big amounts, and take only gold ornaments or jewellery as security for loans.

(b) Small *sarrafs*, who deal mostly in gold and silver. Some of them have branches in important trade centres like Bombay and Calcutta. They receive deposits of small amounts on which they allow interest. Their main banking business is to discount and rediscount *muddati hundis* and to issue and purchase *darshani hundis* on important trade centres. They lend money on mortgages of house property situated in towns, on *pronotes* (*ruqqa parcha ka len den*), and on the security of silver ornaments.

416. *Sarrafi Basna*.—The *sarrafs* are held by the business community in great respect. This is evident from the importance of their association *Sarrafi Basna*,⁽¹¹⁾ members of which are entitled both as payee and holder to make or receive payment of a *hundi* at their own offices—a privilege which is not accorded to other firms although they may transact banking business on a much larger scale.

417. *Modern indigenous bankers*.—A few bankers carry on their business on up-to-date lines. They consist mostly of government treasurers, army contractors and owners of houses in cantonments, and

⁽¹⁰⁾ There is little or no difference between the activities of *kothiwal* and big *sarrafs*. "*Kothiwal*" is a title of respect usually associated with ancient families.

⁽¹¹⁾ The words *sarrafi* and *basna* have come to mean a banker (see Chapter III. footnote, p. 26) and an office or place of business respectively. Originally the word *basna* meant a piece of cloth on which money was counted out, like the chequered cloth from which we have the word "exchequer". A firm is admitted to a *Sarrafi Basna* after a special ceremony.

cater chiefly to the needs of European civil and military officers and their subordinates. These bankers deal with deposits in exactly the same way as modern joint-stock banks. They receive money in current and fixed accounts, issue cheque books and pass books and discount outstation cheques. Some firms also receive savings bank deposits; others whilst receiving money in current account and issuing cheque books and pass books, carry on their other banking business in the same way as the *kothival sarrafs*. Their credit activities are the same as those of other prominent indigenous bankers: indeed, in this respect there is little difference between the methods of any high class indigenous banker and those of joint-stock banks.

418. *Allied business*.—Even the modern indigenous bankers occasionally combine other business with banking; for instance, they deal in cloth, hardware and grain, whilst practically all of them possess landed and house property.

419. *Numbers*.—It is impossible to state exactly the number of bankers of different classes. The figures given in the following table for the eight principal centres of indigenous banking in the province are estimates.⁽¹²⁾

Name of place.	Number of bankers working on old lines.	Number of bankers working on modern lines.
Agra	10	1
Allahabad	8	..
Benares	50	..
Cawnpore	107	..
Meerut	37	2
Moradabad	20	..
Muzaffarnagar	7	..
Baharanpur	15	1

Allowing for considerable exaggeration, we estimate the number of bankers working on old lines at 250⁽¹³⁾ for the whole province, whilst the number of modern indigenous banking firms is, so far as we are aware, seven.⁽¹⁴⁾

420. *Organisation*.—It is difficult to describe and analyse the organisation of indigenous banking, because in fact there is no regular organisation. Bankers' or traders' associations are rare, and even where one exists it appears to have little influence on market practices.

⁽¹²⁾ Evidence, vol. II, p. 124.

⁽¹³⁾ See above, Chapter III, para. 133.

⁽¹⁴⁾ Ibid.

The functions of a *sarrafa panchayat* like that at Agra are confined to certifying the dishonour of a *hundi* or issuing the "fourth" of a *hundi* when the original and two copies have been lost.

Usually bankers work independently of one another. The more important have offices or branches all over the province, and even outside it, in centres like Calcutta, Bombay and Delhi. They work through their *munims* (agents) whose honesty and industry are proverbial. The *munims* submit periodical reports and their masters pay them occasional visits. Indigenous bankers sometimes act as correspondents for one another and also lend money to each other at special rates, but such connexions are by no means common. Still it is through their correspondents or *arhatias* (commission agents) that the indigenous bankers are linked, in so far as they are linked, with such important money markets as those of Cawnpore, Calcutta, Bombay and Delhi.

But while co-ordination is lacking among the various classes of bankers, certain sections of them are united by a strong communal feeling. According to two of our witnesses this is specially true of the Vaishya bankers at Agra and of Marwari bankers generally. These bankers are reluctant to accept "outsiders" into their fold and are always prepared to help the members of their fraternity out of trouble.

421. *Absence of discount houses.*—There are no financial houses in the province which deal solely in the provision of credit facilities by purchase and sale of *hundis* and other bills of exchange, houses such as the Multani bankers of Bombay or the bill brokers of Europe. The reasons assigned for their absence are *firstly*, that the currency of *muddati hundis* in this province is small; and *secondly*, that the banks have made no special effort to popularise the bill habit.

422. *The indigenous money market.*—In spite of the absence of discount houses an indigenous money market may be said to exist in all the important towns of the province, although it is strongest in such large financial centres as Cawnpore.⁽¹⁵⁾

423. *Clientèle.*—The bankers' clientèle consists mostly of landlords, the "poor-rich", traders, and town moneylenders. All our evidence tends to show that the relations between banker and client are on the whole cordial. All classes of indigenous bankers are looked upon with esteem and confidence. Indeed the modern indigenous banker is even more popular than some of the joint-stock banks or the

(¹⁵) For the working of the markets, see paras. 428—31 below.

Imperial Bank of India. The latter, it is alleged, are sometimes slow in attending to their customers' wants or are unnecessarily strict in the interpretation or observance of business technicalities. A modern indigenous banker combines up-to-date methods of business with the traditional courtesy of India; his clients are his friends too.

424. *Capital.*—It is impossible to estimate with any precision the amount of capital invested in the indigenous banking business. No reliable data exist, nor is it easy to procure them, because the bankers refuse to disclose their true resources. Our only source of information is the income-tax department which comes in close contact with the bankers and is familiar with their account books. Their estimate for three districts is as follows:—

<i>District.</i>						<i>Capital.</i>
						<i>Rs.</i>
Cawnpore	...	...	...	...	...	60,00,000
Allahabad	...	...	...	...	...	15,00,000
Benares	...	...	...	...	...	40,00,000
Total						1,15,00,000

These three districts possess some 135 bankers. Taking the total number of bankers in the province to be 250 we estimate their total capital to be some Rs. 2,00,00,000.

425. *Limitation of the estimates.*—The same two factors which affect the accuracy of the income-tax department's estimates in respect of the volume of agricultural credit also affect this estimate. These factors have been fully explained in an earlier chapter,⁽¹⁶⁾ and we need not repeat the explanation. We have only to add that as cases of non-payment of interest are naturally less common in the case of bankers than agriculturist moneylenders, the error due to the fact that interest is regarded for the purposes of income-tax only if it has actually been paid, is here of relatively small importance. The first error, however, due to the reckoning of capital twice over, is of greater importance in the case of the banker than in the case of the agriculturist moneylender. because the turnover of the former's capital is both larger and more rapid.

426. *Method of business.*—(a) *Raising of funds.*—The indigenous bankers provide themselves with funds to meet the demands upon them in various ways. Firstly, the *kothiwals* and *sarrafs*, both big and small, augment their own resources by borrowing among themselves. The *kothiwals* borrow from other *kothiwals* locally or from their correspondents in mofussil trade centres, the big *sarrafs* borrow from the

(¹⁶) Chapter IV, para. 284.

*kothiwal*s and the small *sarrafs* borrow from both. They also raise funds by inviting deposits, or by discounting and rediscounting *muddati hundis* (usance bills) in the indigenous market, or with joint-stock banks. The bankers raise capital at call or short notice by issuing *darshani hundis* (demand bills) on their correspondents or branches. The payment of such *hundis* may by mutual consent be deferred up to seven days. They have various methods of obtaining short-term (as distinct from short notice) capital. The commonest method is to rediscount *darshani hundis* on out-stations and *muddati hundis* with the Imperial Bank of India or a joint-stock bank. But this is only possible wherever such banks exist. Occasionally, the borrower draws a *muddati hundi* in favour of an indigenous banker, who for a small commission guarantees its payment by endorsing it; which *hundi* is then discounted by a joint-stock bank. In such a case, as this, the *hundi* is not usually rediscounted, and so ceases to be a flexible instrument of credit. But the use of *hundis* for this purpose is not common. Usually a book entry is the only record of an advance.

For long-term credit, in which, however, the banker rarely deals, the most common security is a mortgage.

427. (b) *Lending*.—The indigenous bankers advance money in the following ways :—

(i) *Promotes*.—These are payable on demand or at a date; the former are more common, as they require a maximum stamp duty of only 4 annas. The security is purely personal.

(ii) *Bonds*.—These are instruments in writing in which the conditions regarding repayment, etc., are mentioned in detail.

(iii) *Mortgages*.—Where the amount of debt is large, or the period of repayment is long, or the borrower's credit is not good enough for an uncovered advance, he has to mortgage house or landed property. All classes of bankers and moneylenders, especially the *kothiwal*s, lend on mortgages, for in India the ambition of the moneyed man is to acquire immovable property. The period of redemption mentioned in the deed is generally six months to five years, but the lender does not insist on the repayment of a loan until the statutory period of limitation is coming to an end or by accumulation of interest the debt has grown to such an extent that the value of the security is no longer sufficient to cover it.

(iv) *Pledge of grain and other marketable commodities*.—This form of security is accepted both by the *kothiwal*s and the *arhatias* dealing in grain.

(v) *Pawning of valuables, etc.*—The *sarrafs* and *kothiwals* generally lend against the security of gold or silver ornaments, etc.

(vi) *Loans on bahikhata*s.—When one banker lends to another, and when an *arhatia* forwards goods to a trader, a deed is seldom executed; the only record of the transaction is a debit or credit entry, as the case may be, in the books of the lender and the borrower.

428. *Hundis*.—*Hundis* are of two kinds, viz., *darshani* or demand bills and *muddati* or usance bills. A *darshani hundi* is usually drawn by a seller of goods on the purchaser, requesting him to pay the amount to the order of the banker or merchant through whom the bill is collected or negotiated. Sometimes *darshani hundis* are used as mere accommodation bills to secure temporary short-term credit from the market; and such "kite bills" often pass through many hands during their currency. Such operations are extremely risky, and traders who make a habit of them generally end in bankruptcy.

Muddati hundis or usance bills are generally used as a means of borrowing funds; their use in genuine trade transactions is rare. If *A* wants money from *B*, *A* will draw a *hundi* promising to pay a stated sum to *B* or his order after a stated period; or he will accept a *hundi* drawn on himself by *B*. *B* is generally a person with money that he wants to invest in some short-term security. *B* then either keeps the *hundi* himself or discounts it with a banker. An appreciable number of such bills are drawn in large trade centres such as Cawnpore, where large blocks of them find an ultimate resting place in the portfolios of banks. Such *hundis* are popular because they can easily be turned into cash, whenever required. The *sarrafs* who specialise in lending short-term credit to traders also prefer *hundis*, because they can discount them with banks and thus increase the turnover of their business and its profits, and because *hundis*, unlike *pronotes*, are always punctually repaid. Very often, too, a *hundi* does not represent an advance by payee to drawer, but is simply a document by means of which payee and drawer obtain from a bank, which they then divide. Financial usance bills, however, are much less commonly used in the province than other documents of debt.

In foreign countries a large number of trade bills and trade acceptances, payable at a date, are always floating in the market, and being backed by actual trade transactions, are more reliable than mere accommodation bills. In this province the number of such trade bills is negligible. Credit sales are generally on a current account, and as such cannot be used to mobilise further credit.

429. All transactions in *hundis* are carried out through the *dallals*, who correspond to exchange brokers. Their business is to ascertain the

daily requirements of the various financial and business houses, to bring together the buyers or sellers of *hundis* and other bills, and to assist them in their transactions. They are remunerated at rates varying from $2\frac{1}{2}$ to 10 annas per thousand rupees for demand *hundis*. For *muddati hundis* the price is 1 or 2 pice per hundred rupees according to some of our informants: but others state it at 1 or 2 pice per hundred rupees for each month of the *hundi's* currency—a big variation. In some places, the seller pays the commission, elsewhere it is shared by seller and buyer.

430. *Dishonour of hundis*.—As already stated, the punctual payment of a *hundi* is regarded as a sacred duty, and if by chance the borrower finds himself unable to pay, he prefers to arrange with the holder of the *hundi* to get it changed than to bear the infamy of being declared insolvent. Sometimes the bankers issue *zikri chitthis* which are drawn upon their correspondents asking them to pay a *hundi* in case the drawee mentioned therein fails to do so, a practice similar to the endorsement 'drawee in case of need', which is occasionally found on the bill of western countries. This is done with a view to escaping the penalty payable in the event of a *hundi* being dishonoured. A dishonoured *hundi* is very rare.

431. *Market practices*.—The following are some of the local usages which have been brought to our notice:—

(a) When the original payee of a *hundi* is a merchant, he generally keeps the *hundi* himself until maturity; he rarely offers it for discount to a banker or bank.

(b) When the payee is a banker, he occasionally discounts it with a bank and utilises the proceeds to buy more *hundis*, thus increasing his turnover.

(c) Generally holders of *hundis* instead of discounting them with banks sell or discount them in the market, with their own endorsement. The purchaser of such a *hundi* regards it as a "mercantile treasury bill" or short-term investment; he very rarely sells a second time, though there is no legal objection to such a sale. If he happens to want money, before the *hundi* matures, he generally takes it back to the firm from whom he bought it to be re-discounted. This practice is common in Cawnpore.

(d) When the original holder or payee of a *hundi* is a banking firm which has a number of branches, the *hundi* is often sent for sale or discount to the branch where it will fetch the best price. Just before its maturity it is redeemed by the endorsing firm and sent back to the branch, where it originated, to be paid by the drawer.

(e) Similarly merchants and bankers, even if they have no branches elsewhere, take advantage of cheap discounting facilities at important

centres, through their agents or correspondents, to whom a small commission is paid for negotiating their bills.

(f) Very often a banker sends out his representatives to *mandis* and other places to advance money on *hundis* which he subsequently discounts. Just before maturity he returns them to his agent to be collected.

(g) When a *hundi* is lost, a second copy, called *paith*, is issued, and a third, called *parpaith*, in the event of the second copy being also lost. If the third of a *hundi* is lost, a fourth called *maijar* or *panchayati* can be obtained.⁽¹⁾

(h) When a *hundi* is dishonoured the holder gets a certificate to that effect from the *panchayat sarrafa* of the place.

(i) After a *hundi* is certified as above, the seller is liable to pay the following charges to the purchaser :—

- (i) A penalty, called *nikrai sakrai*, which is usually 8 annas. This penalty is Rs. 2 per cent. in Agra, while in Bareilly it is 8 annas per cent. on *hundis* on Delhi and Cawnpore, and Re. 1 per cent. on *hundis* on Calcutta and Bombay. The *nikrai sakrai* is payable to the *sarrafs* but not to others.
- (ii) *Arhat* or brokerage on the charge made by a correspondent.
- (iii) Interest at 9 per cent. per annum from the date of negotiation of a *hundi* to the date of repayment of money.
- (iv) Postage : at some places the postage is fixed at 8 annas.
- (v) When the *hundi* is negotiated at a discount, the seller pays the actual amount mentioned in the *hundi* to the purchaser, but when it is sold at a premium the seller pays the full amount that he originally received. In Bareilly and some other western districts there was a custom by which the seller, in case he had originally sold at a premium, repaid at the *sarraf's* selling rate of the day or at par, whichever was higher. But as there were frequent disputes about this rate, a convention has been created by which the seller of a dishonoured *hundi* originally sold at a premium repays at the rate of Rs. 100½ per cent. for *hundis* on Calcutta and Bombay and Rs. 100¼ per cent. for *hundis* on Delhi and Cawnpore.

(j) The drawee of a *hundi* can by mutual consent defer payment of a *hundi* for three days at Calcutta and Bombay and seven days at Cawnpore and Delhi, but he pays to the holder interest at the rate of 7 annas

(1) For examples see L. C. Jain, "Indigenous Banking in India," pp. 84—89.

9 pies per cent. per month. If *hundis* are held by banks, immediate payment is insisted upon and in case of default 9 per cent. interest is charged.

(k) In some places the bankers give a rebate of half an anna for every rupee of interest received by them.

432. *Rates of interest.*—The rates of interest charged by the indigenous bankers depend upon the security and the nature of the transaction as much as on the season. The ordinary rate varies from $7\frac{1}{2}$ to 12 per cent. on promotes and on mortgage of landed and house property, but is most commonly 9 per cent. The rate of interest charged in the case of loans on the security of ornaments also varies from $7\frac{1}{2}$ to 12 per cent. according to the amount borrowed and the material (gold or silver) of the ornaments.

Interest on advances against valuables has increased in this province during the last 60 years. Dr. L. C. Jain has given a table (") compiled from the accounts books of a banking firm which shows the various rates of interest which it has charged from time to time. This table shows that the rate has gone up from 6— $7\frac{1}{2}$ per cent. in 1874 to $7\frac{1}{2}$ —12 per cent. in 1927. We had no similar opportunity to examine accounts books, but from inquiries made by one of us, Mr. M. L. Sah, we find that the rate has risen in all parts of the province during the last 50 years. This rise may be due either to an increase in the demand for this kind of accommodation, or what seems more likely, a decrease in the supply; whilst it is, no doubt, also affected by fluctuations in the value of the precious metals. Recently the Imperial Bank of India has also started making such loans, which must tend to bring down the rates.

When one banker borrows from another, the rates vary from $4\frac{1}{2}$ to 9 per cent., as against 9 to 12 per cent. from ordinary customers on personal security; 6 per cent. is the most common rate.

433. *Discount rates.*—*Hundis* for internal remittance are purchased and sold at rates which vary according to the conditions of demand and supply, which conditions themselves vary according to season and place. During the busy season when money is required for the purchase of grain in up-country towns the rate tends to a discount; but during the slack season when money is required in the big markets to pay for goods imported, the rate goes to a premium. In places where the Imperial Bank of India or joint-stock banks are situated, the *hundis* of bankers and *arhatias* are purchased by those who have to remit funds, or by the banks for financial operations. In the former case, the rate may either be at a discount, at par or at a premium, but in the latter case, it is always at

(") "Indigenous Banking in India," p. 250.

a discount. In these places the rates vary within small limits, from $\frac{1}{2}$ per cent. discount to $\frac{1}{2}$ per cent. premium. If the amounts are big, the banks generally charge not more than $\frac{1}{2}$ per cent. which is generally close to the market rate. In small places, where there are no banks, the *arhatias* have sometimes to pay 6 annas per cent. or even more; the rate varies from 6 annas discount to 2 annas premium.

Muddati hundis are current during the winter season, when the money market is tight, at rates varying between $7\frac{1}{2}$ and 9 per cent., and during the slack season at $4\frac{1}{2}$ to $7\frac{1}{2}$ per cent. according to the credit of the parties. The bazaar rate is sometimes lower than the Bank rate.

434. *System of accounts.*—The indigenous bankers keep their accounts on the *bahikhata* system. They maintain one *rokar bahi* or cash book, one *roz namcha* or day book, and one *khata* or ledger. Entries are recorded in detail, the books are kept on the double entry system, and the entries are checked by means of a trial balance or *chittha* at the end of the month. This method of keeping accounts is both cheap and efficient.

435. Indigenous bankers deal principally with men of business or the educated, who are able to understand their accounts. They regularly supply their clients with copies of their accounts. Our evidence proves past doubt that, whatever may be said of some moneylenders, the indigenous bankers' code of honesty is very high.

436 *Indigenous bankers and—(i) agriculture.*—The bankers work mostly in towns and with the exception of some bankers who are also *zamindars*, they are not in direct touch with the agriculturists. But they do finance the agriculturists indirectly through the *zamindars* and the village moneylenders to whom they lend.

437. (ii) *Trade.*—Most of the trade of the province is financed by indigenous bankers, *arhatias*, *kothiwals* and *sarrafs*. The small traders are out of reach of the joint-stock banks and it is only from the indigenous bankers that they receive any financial assistance. The bankers advance, as already stated, on *hundis*, *pronotes*, and the security of goods and ornaments, and also on *bahikhatas* (book entries).

438. (iii) *Industry.*—The indigenous bankers mentioned in this section rarely advance money to artisans. Where they do, they advance on the *qist* or *rojahi* system. But big industries and *karkhanas* receive financial aid from indigenous bankers against *pronotes*, *hundis* or on the security of goods.

439. *Indigenous bankers and joint-stock banks and the Imperial Bank of India.*—We have already described the nature of the accommodation that indigenous bankers receive from joint-stock banks. Such accommodation is neither free nor regular but is sought occasionally and

only in the last resort, when the bankers' own funds are exhausted and other bankers will give no further credit. Some bankers have complained to us that the Imperial and joint-stock banks are unsympathetic; that they do not give them as large a measure of the accommodation as their financial position entitles them to receive; that they are treated as ordinary customers, and no special consideration is given to their applications. The banks, on the other hand, say that adequate security is not always forthcoming, and that as the bankers generally refuse to disclose their accounts or publish a balance-sheet it is not always possible to assess the true financial position of the applicants. At present there is nothing to prevent a dishonest banker from exploiting his position as a "banker" and defrauding the banks. This is obviously a matter which borrower and lender must settle between them, which cannot be governed by definite rules. It is for the borrower to give his creditor reasonable proof that he can offer sufficient security, and that he has resources from which he can repay. But we cannot help feeling that in present conditions some complaints are justified, and that the banks occasionally treat applications for credit from the indigenous banking community, which has an honourable history behind it, with too little sympathy, and are apt to insist too rigidly on the observation of mere formalities. At the same time, we consider that the indigenous bankers might well do something to meet the requirements of joint-stock banks. For instance, they might develop the use of trade bills, and encourage a more extensive use of *hundis*. They might organise some sort of association of indigenous bankers, which would certainly enhance their financial prestige in the eyes of the banks and facilitate extension of credit. And there are other possible changes, requiring legislation, which would have the effect of bringing indigenous and joint-stock bankers into closer contact. For instance, as suggested elsewhere, amendment of the Transfer of Property Act so as to permit equitable mortgage by deposit of title-deeds, or deposit of a mortgage deed by a mortgagee as security, would create securities which the banks could accept.

440. *Difficulties of bankers.*—(1) The principal difficulty which indigenous bankers have to encounter in business is that they are not recognised as possessing the status of "bankers." That is why they are unable to get the accommodation which the Imperial Bank of India and the joint-stock banks would otherwise give them, why cheques crossed in their name are not accepted, and why no distinction is made in their favour in the matter of remittance facilities.

(2) Another of their difficulties is that some joint-stock banks refuse to accept cheques drawn on them, and return them with the remark "no means of collection." This difficulty can be easily removed if a banker

makes arrangements with some well-known bank to pay provisionally all cheques drawn on him and prints the name of the bank on his cheques. For this purpose, all that the banker need do is to keep an account with the said bank. There is a precedent in English practice. Many banks which are not members of the clearing house keep an account with some other bank that is a member, and prints that bank's name on their cheques as their "clearing agents."

(3) The banker suffers from the same legal difficulties as the money-lender. These are fully discussed in a former chapter.^(*) They have, however, a special legal disability of their own, namely, that the Bankers' Books Evidence Act (XVIII of 1891) does not extend to indigenous bankers unless the local government makes the Act applicable to a particular firm.

441. *Decline of the indigenous bankers.*—For various reasons the business of indigenous bankers is declining. In the first place, the establishment of modern banking institutions has resulted in the curtailment of their business, because they have failed to move with the times. A few of them—only seven in this province—have adapted themselves to modern methods, but most of them still cling to their old ways. The profits of every businessman must obviously depend upon the size of his resources; and a modern banker's success depends on the amount of deposits that he can command. But indigenous bankers have not yet realised this fact; they still rely far more on their own capital than on deposits. Secondly, the difficulties just enumerated are such that it is not surprising to find old banking houses are now investing their resources instead in other business than banking.

442. *Defects of the system.*—The most serious defect of the indigenous banking system, if a system it can be called, is this very reluctance to accept deposits. The result is obvious. The bankers are rather "moneylenders" than "bankers", and their utility is therefore limited, their progress restricted. And the second defect is the inadequate use of *hundis*. The absence of a discount market, to which we have already referred, robs the banking system of a mechanism for the automatic expansion and contraction of credit in accordance with the needs of the country.

Indigenous banking thus lacks both deposit and discount business, which are the principal functions of modern banking. This accounts largely for the third defect, viz., lack of co-ordination between the various classes of indigenous bankers and absence of effective liaison between indigenous and modern banking. There is often no link, at best there is only a weak link, between the various credit agencies.

(*) Chapter VII.

B.—OTHER INDIGENOUS CREDIT AGENCIES.

443. *Classes.*—Besides the bankers mentioned in the preceding section, there are a number of other credit agencies working in this province which are no less important. We have already discussed them in a broad way in Chapters III and IV. They may be briefly enumerated as follows:—

A.—Rural credit agencies.—(1) The professional—

- (a) The village moneylender including both the village *bania* and the village *muhajan*.
- (b) The *sahukar*.
- (c) The peripatetic moneylender—the *qistwala*, the *Kabuli*, the cattle dealer.
- (d) Miscellaneous—the *Banjara*, the *Behvari*, the *pheriwala*, the *khandsali*.

(2) The amateur—

- (a) The agriculturist moneylender—the *zamindar* moneylender and the tenant moneylender.
- (b) Miscellaneous moneylenders—pensioners, temple priests, village servants, *fuqirs*, etc.

B.—Urban credit agencies.

- (a) The *sahukar*.
- (b) The *sarraf*—small and large.
- (c) The *arhatia* (the link between the village and the town).
- (d) Miscellaneous and casual—the *qistwala*, the pawnbroker, etc.

444. *Methods of business.*—We have already discussed in Chapter IV the methods of business adopted by the rural credit agencies. We now turn to the urban moneylender, excluding the *sarraf*, who is generally a banker and whose methods have just been described.

445. *The sahukar or town moneylender.*—A *sahukar's* method of business varies with the locality and his clients. A big moneylender generally advances to traders and the well-to-do on promotes, bonds, mortgage of property, the security of ornaments and on *hundis*. A small moneylender lends money to the menial servants of Government and local bodies, railways, factory artisans and mill-hands, and others, amongst whom mention may be made of the *wasiqadars*(*) of Lucknow, who borrow on the assignment of their *wasiqas* (annuities). Loans are, as

(*) A *wasiqadar* is a person who is in receipt of *wasiqas*. *Wasiqas* is the interest on the securities invested by different kings and queens of Oudh with the East India Company on the understanding that the interest of these securities will be employed in giving pensions to the relations, dependants and hangers-on of the ruling family of Oudh. These pensions are hereditary and are divisible according to Muhammadan law among members of the family after the death of each recipient.

often as not, made on the *qist* system (repayment by instalments) or *rojhai* system (repayment by daily instalments).

Some pawnbrokers and others dealing with English-knowing people—particularly the Anglo-Indians—have remodelled their offices on up-to-date lines, calling themselves “loan officers” or loan bureaux”, etc., but in their charges they are as exorbitant as the *qistwalas*. The security may be that of a watch, a trinket, a cigarette case, a typewriter a sewing machine, etc., and the loans are for short periods. Some of these offices have developed themselves into joint-stock companies, calling themselves by such high-sounding names as “finance corporation.”

Among the town moneylenders must also be mentioned the casual moneylenders who use their spare funds in moneylending as a supplement to their other sources of income. Amongst these are such persons as government pensioners, traders, members of the learned professions and widows. Their usual method of advancing is on *ruqqas* (pronotes), the security of ornaments, and mortgages. As their aim is often to acquire landed property mortgages are popular with such people. The transactions of these moneylenders are often secret but they are considerable.

446. The *arhatias*.—There are two kinds of *arhatias*, viz.—

- (1) those who finance the movements of crops from the villages to the port towns or the consumer; and
- (2) those who handle the movements of finished or imported goods from the manufacturers or port towns to the consumer.

The first class of *arhatias* make advances to the cultivator or to those who move crops from the village to the *mandi*. They buy crops on behalf of their customers, charging a small commission called *arhat* and a small charge for cartage and market dues, which we have already described elsewhere.⁽¹⁾ They forward the goods to the customer on the invoice system, making a debit entry in the customer's account for the value of the goods forwarded and for their own dues. Interest is charged or paid to the customer according to the debit or credit balance in his account, at a rate ranging between $7\frac{1}{2}$ and 9 per cent. Advances are also made on the security of goods, such as grain, *ghee* or *gur*.

A description of the system of the cloth trade will serve to explain the activities of the second class of *arhatias*. The *arhatias* purchase cloth from the wholesale dealers and pack and forward it to their customers, the retail drapers, for whom they buy. The wholesale dealers allow 7 to 21 days according to the custom of the market, after which period

(¹) Chapter III, paras. 123—128.

they must be paid, unless an extension of time is arranged and interest paid for the extra period. The *arhatias* accommodate the retail drapers according to their standing and the character of their past dealings. Interest is paid or charged, as the case may be, at 7 to 9 per cent. The principal markets from which the *arhatias* buy cloth for the retail drapers of this province are Bombay, Delhi, Cawnpore, Calcutta and Ahmedabad.

447. The *qistwala*, who in some cases is a banker, makes advances not merely in his headquarters and in the neighbourhood, but over a wide area extending to places several hundred miles away. For example, some of their *ilaqas* (circles of business in charge of *munims* or agents) are as far away as Gujrat, Bombay and the Punjab. A *qistwala* usually lends small amounts to agriculturists, or to the labouring and artisan classes and mill-hands in the industrial towns. The most common kinds of *qist* are of four, ten, sixteen and twenty rupees respectively, for which the sums realised are six, twelve, twenty and twenty-five rupees, at a rate of one rupee per month; whilst there are also *qists* repayable at the rate of one anna a day, of which the principal amounts are two, sixteen and twenty rupees, and the amounts repaid are Rs. 2-2-0, Rs. 20-10-0, and Rs. 24-6-0. In addition to the abovementioned charges a borrower has to pay 1 anna 6 pies to 4 annas as writing charges and 2 annas for the stamp.

The system of daily realisation is called *rojahi*, and is popular with the mill-hands and other wage-earners. There are also other one-day loans which are repaid either the same day on which they are borrowed or on the next. They are popular among petty traders, hawkers, and drivers of *ekkas* or *tongas*. The rates of interest vary from 2 annas per cent. to 1 anna per rupee per day.

448. *Methods of raising funds.*—With the exception of the *arhatias* who borrow money by floating *hundis* in the market or by pledging goods with the commercial banks and the Imperial Bank of India, the credit agencies mentioned in this section generally work with their own capital; but if they require additional funds they obtain them in the following ways :—

(1) The town moneylenders and pawnbrokers borrow from other moneylenders on pronotes and also by repledging the ornaments pawned with them. Some smaller *sarrafs* also resort to the practice of repledging the ornaments.

(2) The grain *arhatias* borrow from their principals at important trade centres or from other indigenous bankers, viz. *kothiwals* and big *sarrafs*. To provide himself with funds a moneylender of this kind freely issues *hundis* on his correspondents or principals at important trade

centres or on those to whom he sells his goods. At places where joint-stock banks are willing to advance money on the security of grain the *arhatias* borrow from them also.

Cloth *arhatias* obtain funds by issuing usance bills or by borrowing funds from other indigenous bankers; but as they work mostly in important trade centres like Bombay, Calcutta, Delhi or Cawnpore, they do not find it difficult to get their *hundis* discounted.

449. *Numbers*.—As in the case of bankers, so with other credit agencies, it is impossible to give their numerical strength with any precision. The census figure of 1921 for all kinds of bankers and moneylenders in the province was over 1½ millions, of whom some four hundred thousand are workers, and the rest are dependants.

450. *Capital*.—The remarks which we have made regarding bankers' capital apply to that of the moneylenders. The Income-tax department's estimate of moneylenders' capital is 20 crores, and 5 crores for those whose income is between Rs. 1,000 and Rs. 2,000. It is impossible to obtain any accurate figures for the small men whose income is below Rs. 1,000. These estimates are all incredibly low, and the department admit it freely.⁽²²⁾

451. *Relation to (i) agriculture*.—The part which the different classes of village moneylenders play in financing the agriculture of the country has also been already discussed in chapter III. The town moneylenders make advances mostly on the *qist* (instalment system); the small Rastogis of Lucknow and the Harhias of Gorakhpur are striking examples. Loans are also made on the pawning of ornaments, both gold and silver.

452. *Relation to (ii) trade*.—The major portion of the trade of the province is financed by the *arhatias* and town moneylenders. Joint-stock banks and branches of the Imperial Bank of India have been established in all the important towns of the province, but they do little to supply the credit needs of local traders and merchants. Their rules regarding security and forms of instruments are strict, and the branch managers have no discretion to make advances in contravention of those rules. Small traders and businessmen regard such banks as unapproachable. The indigenous credit agencies advance against the security of goods, pledging of ornaments, on promotes, *bahikhatas* (book entries) and *hundis*.

453. *Relation to (iii) industry*.—Small industries are financed by petty town moneylenders, by dealers in finished wares or by the suppliers

⁽²²⁾ See paras. 234 and 424.

of raw materials. The last of these do not charge any interest if the amount is repaid within a week or so, but recoup themselves by the relatively low prices at which they can obtain the finished wares. The dealers make advances to secure a hold on the artisans. The town moneylenders lend money on the *qist* or *rojahi* systems. As the artisans can offer little or no security and the lenders know that they have little chance of recovering the principal sum, rates of interest are exceedingly high.

Big industries and owners of large scale *karkhanas* are generally men of substance; they deal mostly with big moneylenders who do not charge high rates of interest.

454. *Relations with the Imperial Bank of India and the joint-stock banks.*—The credit agencies mentioned in this section can obtain financial assistance from the Imperial Bank of India and the joint-stock banks by pledging their stocks, a facility of which the *arhatias* who deal in grain make full use. The *arhatias* also obtain accommodation by rediscounting *hundis*.

455. *Rates of interest.*—The *arhatias* usually charge $7\frac{1}{2}$ to 9 per cent. interest—the rates of town moneylenders lie between $7\frac{1}{2}$ and 12 per cent.—on *hundis* and promotes, with 9 per cent. as the most common rate. Interest on mortgages of house property varies between $7\frac{1}{2}$ and 12 per cent.; on mortgage of *zaminidari* the interest ranges between 9 and 12 per cent. Petty town moneylenders operating among small people charge up to one anna per rupee per month. Village moneylenders charge between 18 and $37\frac{1}{2}$ per cent. interest, but as already stated the general rate is 24 per cent. For mortgages of smaller amounts 9 to 18 per cent. is charged; 12 per cent. is the usual rate.

456. *System of accounts.*—Credit agencies whose dealings are amongst businessmen and educated persons send copies of accounts to their clients, whilst those dealing with the illiterate explain the account whenever required. It is in evidence that in certain parts the accounts of agriculturists with their clients are made up after every crop and are explained to them in the presence of other clients on fixed dates. Complaints are often made that village moneylenders do not keep their accounts properly and that a debt once borrowed multiplies with amazing rapidity: but these complaints are vague, and in the absence of definite proof we regard them as grossly exaggerated.

457. *Public opinion.*—*Sarrafs*, *sahukars* and *arhatias* are honourable men, whose business methods are honest, and they are deservedly held in high esteem. The *qistia* charges interest at a usurious rate, though his profits are greatly reduced both by his numerous bad debts

and by the costliness of his system, with its host of travelling *gumashtas* and *sipahis*; but he is popular because that system is so convenient to his clients. The same is true of the Banjaras, who also bring money and goods to the debtor's door, and they are well liked despite their petty exactions. Opinion regarding the village moneylender is divided. Some consider him as wholly abominable,—an unscrupulous usurer, a land-grabber, the fomentor of factions and lawsuits; others commend him as the cultivator's friend, the traditional guardian of his property, an ever present help in time of trouble. Evil genius or good angel,—the truth lies between these extremes. He is useful, for it is his money that enables the cultivator to plough, to sow and to reap, that brings the crops from field to threshing floor, from threshing floor to market. He is greedy, but his greed is limited by discretion; his fortunes are bound up with those of his clients, and if he harms them, he harms himself. In short, he is a necessity. The cultivator knows it, and embraces what he cannot eschew. The moneylender knows it, and "turns his necessity to glorious gain."

As for the *Kabulis*, the *Harhias*, and their like, they are rather robbers than moneylenders.

458. *Defects*.—The defects of indigenous banking are also the defects of moneylending,—lack of co-ordination, of suitable credit instruments, of adequate facilities for obtaining accommodation when required. But the worst defect of the moneylending system is its exorbitant interest.

C.—POSSIBLE REMEDIES IN THE EXISTING BANKING SYSTEM.

(i) *Consolidation of indigenous banks and bankers.*

459. Having examined the problems, we come to the remedies, and deal first with the indigenous bankers. Our analysis of their circumstances makes it abundantly clear that the indigenous bankers are now, and will remain, an indispensable element in the financial system of the country. Their resources are limited, their methods antiquated; but they maintain traditions and standards which, though old, are honourable; they possess wide knowledge and varied experience, and the world would be the poorer by their extinction. Fortunately, their extinction is not even desirable; the true remedy is not to end but mend them. We have received numerous suggestions for the improvement of the indigenous banking system. We have considered them carefully, and we believe that several lines of advance are open. But we can do no more than state the possibilities; the bankers themselves must

decide by which road, and at what speed, they will move. The possibilities are as follows :—

- (1) The transformation of indigenous bankers into private limited liability companies.
- (2) The amalgamation of the business of local indigenous bankers into joint-stock banks.
- (3) The establishment of what are known in Germany as "Com-mandit" principle banks.
- (4) The appointment of indigenous bankers as agents of joint-stock banks or of the Reserve Bank.
- (5) The formation of a co-operative bank of indigenous bankers.
- (6) The adoption of bill-broking as an integral part of the indigenous banker's business.
- (7) The re-organisation of indigenous bankers on modern lines.

460. *Private limited liability companies.*—There is at present a tendency in this province for joint family firms and others to register themselves as private limited companies. They thus seek to reap the advantages of limited liability, whilst retaining the principal advantage of the private firm, namely, its secrecy; for a private limited company need not publish a balance-sheet. It is asserted that by this system the banker is unable to withdraw his capital; but there is nothing to prevent him from withdrawing it by making a loan to himself. Though the absence of a published balance-sheet is a grave fault, yet such a company, at all events, becomes a separate and regular corporation. We do not, therefore, oppose the formation of such companies, although we cannot regard their formation as a complete solution of the present defects in indigenous finance. We recommend, however, that any provisions that may be made for the regulation of public banking companies should apply to private limited liability companies as well.

461. *Amalgamation of indigenous bankers.*—In his book on indigenous banking Dr. L. C. Jain has suggested that in every village or small town the indigenous moneylenders should combine on the joint-stock principle, pooling their capital resources and forming themselves into indigenous joint-stock banks. The indigenous moneylenders and bankers would act as directors and paid employees of the bank, besides earning dividends on their shares and interest on their deposits,^(*) Dr. Jain claims for his proposal that these would be true banking institutions rather than mere moneylending agencies, that they would be

(*) *Indigenous Banking in India*, p. 228.

economical and convert dormant hoards into deposits. But any scheme which does not leave the indigenous bankers free to carry on their business as they please does not appear to us to be feasible at the present time.^(*) By this proposal some of the indigenous bankers who join the amalgamation must give up active business. The choice of manager, managing director and directors will cause constant quarrels. We are of opinion that at present schemes of alliance are more practical than schemes of combination. But we do not hesitate to recommend the proposal to indigenous bankers and moneylenders as a desirable ideal.

462. "*Commandit*" principle banks.—The establishment of banks or branches of banks on "*Commandit*" principles (as they are called in Germany) is an arrangement by which one or more private bankers become the chief controlling officers of a joint-stock bank and also its partners. The liability of the shareholders is limited to the amount of their shares, but that of the partner-bankers is unlimited and extends to the whole of their private fortunes. To compensate them for this unlimited risk they generally receive 20 per cent. of the profits of the bank. The advocates of this system claim that it takes the fullest advantage of the banker's local knowledge and experience by ensuring that the prosperity of the banker is linked to the prosperity of the bank, whilst the principle of unlimited liability ensures cautious working and inspires confidence in depositors. Such banks can be formed under section 70 of the Indian Companies Act.

463. *Agencies or branches of joint-stock banks on "Commandit" principles.*—It should be possible for banks to establish branches on the "*Commandit*" principle. A bank instead of opening a branch would arrange with a banker to supply him with funds up to an agreed amount, over and above his resources and local deposits, to divide profits in a pre-arranged manner, but in case of loss to hold him liable for the whole or a part of the loss. The lending bank, whilst retaining the advantage of limited liability, would enlist the support of the banker's local knowledge and connexions. A fear has been expressed that in such a case the parent bank could not exercise proper control; but we cannot share that fear, so long as the bank takes a real interest in such agencies. The system has been worked in Germany for over 70 years with excellent results. But its success must depend upon the bankers themselves. They must satisfy the bank that they are solvent, and that they possess the requisite knowledge and capacity to do successful business. They must permit them to examine their

(*) Dr. Jain himself says so in his note, Evidence, vol. II, p. 129.

accounts and exercise some control over their operations. Unless the indigenous bankers are prepared to agree to these conditions, no bank could entrust them with the use of its name and all that it means. It is unnecessary to discuss details since they will depend upon a variety of circumstances and must be left to the contracting parties to determine in each individual case.

464. *Indigenous bankers as agents of commercial banks.*—Another possibility is that joint-stock banks, instead of opening branches, should appoint indigenous bankers as their agents to conduct all or certain specified forms of business for them on a basis of commission or division of profits. The exact terms of agency must be a matter for the contracting parties to settle. This arrangement would again utilize fully the local knowledge and experience of the indigenous bankers and make expansion possible at a relatively cheap cost.

465. *Agencies of the Reserve Bank.*—Whether commercial banks find it impossible to create such agencies or not the Reserve Bank will be able to utilize the services of indigenous bankers in this manner. The bank would, of course, prescribe certain conditions and safeguards before appointing an indigenous banker as its agent. Since indigenous bankers are in intimate touch with the public and exist even in the smallest towns this method appears suitable to bring about a speedy expansion of organised credit.

466. *Indigenous bankers' co-operative bank.*—We have also considered the suggestion of a co-operative bank consisting of indigenous bankers working in urban areas. At present indigenous bankers complain that the joint-stock banks cannot, or at all events do not, give them all the accommodation that they need; but a co-operative bank of their own would do so, discounting their *hundis* and rediscounting them with the Reserve Bank. Such a bank could also act as an acceptance house. It would leave indigenous bankers free to carry on their business as they please, whilst supplementing their resources and acting as a link between the indigenous bankers and the Reserve Bank. The greatest value of such a bank would be educative, since it would keep its members in touch with the daily movements of the money market and train apprentices in up-to-date methods of banking. We foresee certain difficulties in this proposal. For instance, will the number of bankers willing to join the bank be sufficient to make it a success? Will the bank succeed in attracting sufficient working capital to meet the needs of all its members? Will the profits earned be sufficient to compensate the members for other possible inconveniences, e.g., the decrease in their resources due

to subscription of capital to the bank? We do not, however, regard these difficulties as serious; and recommend the proposal to the indigenous bankers as a possible connecting link between them and the central bank of the country.

467. *Bill-broking houses.*—It has also been suggested that indigenous bankers, especially *sarrafs*, should re-model their business so as to include bill-broking. Borrowers who cannot offer security acceptable to the banks could then approach them through the *sarrafs*, who would thus become a valuable link between the banks and the general public. And their functions could be widened so as to include acceptance of bills, opening of and guaranteeing commercial credits, etc. Their position would be analogous to that of the bill brokers and discount houses of London, respectable and creditable in every way. We feel that this would be a natural development of the extension of facilities for the rediscounting of bills which the central banking organisation will provide. But we also feel that it would be undesirable to restrict the activities of indigenous bankers in the future banking system of the country merely to bill-broking. Though some might specialise in this form of credit, they are capable of playing a much bigger rôle, and nothing should be done to limit the scope of their utility.

468. *Re-organisation of banks.*—One thing, however, is clear. If the indigenous banker wishes to continue serving his country, he must adopt modern methods and follow modern tendencies. He cannot stand still; he must move forward, or move aside altogether. If indigenous bankers find it difficult at present to re-organise their business on any of the lines suggested above, they can at least enlarge its scope so as to take in deposit banking. But who will take the lead? Our answer to this question is that the Reserve Bank should provide a system of recognising bankers. The scheme should be one of which indigenous bankers will find it worth while to take advantage whilst involving no risk to the central banking agency.

469. *Conditions of recognition.*—We suggest the following conditions of recognition :—

- (a) Restriction to banking and allied business to the exclusion of trade.
- (b) Re-organisation of banking business on modern lines.
- (c) Maintenance of an account with the Reserve Bank.
- (d) Periodical audit of accounts by approved auditors or periodical inspection of accounts by the Reserve Bank.

We need hardly emphasise the first of these conditions. It is an axiom of banking that any combination of credit operations with trade

or speculative dealings is most dangerous. Speculation has caused the downfall of many indigenous banking firms. We agree with Mr. Thakur when he writes as follows :—"It may, however, be mentioned here that private bankers would greatly enhance their business and confidence in themselves if they confined their attention to banking and allied activities and did not participate in active trading, involving trade risks. They could, of course, continue their commission agency business, but anything smelling of trading on their own account with the depositors' money would in the long run be injurious to their prosperity." (24)

As for the second condition, it is obvious that a banker who receives deposits, both current and fixed, and issues cheques and pass books is better able to augment his resources and meet the credit needs of his clients than one who depends upon his own resources, borrows only occasionally and lends incautiously. He can also afford to lend at lower rates of interest.

The last two conditions need no comment. Nobody can reap the benefits which are provided by a central banking agency, unless that agency holds a portion of his funds in deposit : no banker or bank can secure public esteem, let alone public "recognition," unless he submits his accounts to periodical audit.

470. *Privileges of recognition.*—As against these obligations the recognised bankers should have certain definite privileges as follows :—

- (a) The discounting of bankers' *hundis*.
- (b) The facilities provided by the Bankers' Books Evidence Act.
- (c) Remittance and other facilities.

No greater advantage could be conferred on indigenous bankers than that their *hundis* should be discounted at or near the bank rate in quantities limited only by their own credit and that of the primary party responsible for the bill.

The Imperial Bank of India already affords special remittance facilities to the joint-stock banks, but does not at present treat indigenous bankers as "bankers." Recognised bankers should have, as far as their credit allows, the same treatment and position as a joint-stock bank.

471. If a class of recognised bankers is thus created, we cannot doubt that it will grow and prosper, and become a source of strength to the

(24) *Organization of Banking in India*, p. 350.

banking system of the country. But we must repeat that indigenous bankers must be left entirely free to ask for recognition or not, as they please. There should be no interference with the individual liberty of a private bank or banker, who must be allowed to "continue their activities as best as they like, and no sort of check or regulations should be imposed upon their business. The sanctity of private business so long as its liability is unlimited and it does not violate public morals should be left untouched."⁽²⁰⁾

(ii) *Suggestions for the improvement of other credit agencies.*

472. In another chapter we have made suggestions for the general improvement of the credit system of the province. For instance, in respect of agricultural credit we have recommended an expansion of primary co-operation, the creation of co-operative marketing societies, and the constitution of a provincial co-operative bank. Similarly, in the domain of industry we have proposed the creation of co-operative artisan societies both for credit and sale, together with a provincial industrial bank, the apex of the system. To meet the needs of landlords and others who require long-term credit, we have recommended the constitution of a land mortgage bank. Regarding the problem from another aspect, we have further recommended that the potential debtor be taught the elements of financial prudence, the desirability of equating his expenditure to his income and of avoiding, or at least reducing to a minimum, his borrowing for unproductive purposes. In short, we have made such proposals as in our judgment will facilitate the co-ordination of credit, the control of his lending by the creditor, and the control of his borrowings by the debtor.

473. The question still remains what is to be done with moneylender. One thing is certain, that the moneylending fraternity will bitterly resent and strongly oppose such changes as we have suggested, directed as they are to restricting their operations and reducing their gains. Nor will those changes result in his disappearance. Usury is as old as the world; no country has ever succeeded in abolishing it, no country ever will. Whatever measures of reform may be undertaken, however perfect a system of education may be, there will always be fools and spend-thrifts to make business for the usurer. It is useless, therefore, to consider whether it is or is not desirable to do away with our present money-lenders, because it is impossible; and none of our witnesses, indeed, have even suggested it. They have, however, made various proposals to regulate their operations and safeguard the interests of their clients, which we now propose to examine.

(20) B. T. Thakur, *Organization of Banking in India*, p. 349.

474. *Inclusion of moneylenders in co-operative societies.*—The first suggestion is that moneylenders, especially those in rural areas, should be induced to deposit their funds with a co-operative credit society on condition that they cease lending money privately to the members of that society. We have discussed this proposal elsewhere.⁽²¹⁾ In present conditions we doubt whether any moneylender would be prepared to forfeit his independence; he is, as he always has been, in determined antagonism to the co-operative movement. But even if he abandoned his attitude of opposition, the proposal involves one great danger. The moneylender's financial status would quickly enable him to dominate the society and dictate its operations; before long, instead of the society using the moneylender's funds for the benefit of its members, the moneylender would be in a position to use the society's funds for his own benefit. It may be that a society of the new type which we contemplate,—the "general purposes society",—may acquire, in time, sufficient influence to keep him in check. At all events, we consider the experiment worth making. To win this dangerous enemy over to the side of co-operation, to secure the benefit of his knowledge and experience, would be no small achievement.

475. *Formation of a co-operative society of moneylenders.*—A second suggestion is that the moneylenders in a particular locality should be induced to form themselves into a rural bank lending money to the primary societies of the neighbourhood, not to individuals. We have fully discussed this proposal in an earlier chapter,⁽²²⁾ and have nothing to add to what we have already said. We think the experiment might be tried; but we cannot pretend to feel sanguine of its success.

476. *Licensing of moneylenders.*—Many witnesses have recommended the licensing or registration of moneylenders. As a condition of receiving a licence, the moneylender must bind himself not to charge interest above a fixed maximum rate and submit to inspection of his accounts. In return he would be given certain privileges, namely, free credit with some bank, either the Reserve Bank or one of its agencies or the district co-operative bank; and the right to the same facilities for the realisation of his debts as are at present enjoyed by co-operative societies. To this proposal there are obvious objections. *Firstly*, it would be difficult to induce either the Reserve Bank or any district co-operative bank to give a moneylender easy credit; the Reserve Bank could scarcely be expected to deal with such small fry, and a district co-operative bank could scarcely be expected to finance one of its own rivals. *Secondly*,

⁽²¹⁾ Chapter VI, para. 303.

⁽²²⁾ Chapter VI, para. 302.

it would be quite impossible to ensure that a moneylender observed the conditions of his licence; and if he did not, the only possible penalty would be to revoke the licence itself, which, since he would then resume independent operations, would scarcely act as a deterrent. *Thirdly*, no moneylender would be willing to take out such a licence if it involved the auditing of his accounts. *Finally*, such a scheme would merely restrict credit without controlling it.

477. *Rendering of accounts.*—We have received numerous complaints that moneylenders do not keep their accounts regularly or honestly, and that they refuse to explain them to their clients. The remedy usually suggested is legislation on the lines of the Punjab Regulation of Accounts Act, which prescribes forms in which accounts are to be kept and requires moneylenders to send a copy of those accounts twice a year to their clients. We doubt whether such practices are widespread in this province. Indeed, there is evidence to show that in some districts it is the moneylender's regular custom to explain his account to every client on certain fixed days. There is also evidence which shows that errors in the account are not always in favour of the creditor.^(*) Again, the principal object of rendering a periodical account is to enable the recipient to compare that account with his own. But in the prevailing state of illiteracy few debtors keep any account; and obviously, unless he does so, the creditor can still manipulate his accounts, since though the debtor may suspect manipulation he will not be able to prove it. Further, though the law may forbid the levying of a fee for preparing such an account, we feel little doubt that the moneylender in one way or another will pass the cost of preparation on to his debtor, either by raising the price of credit, or by inventing some new customary fee not directly connected with the preparation of the account itself. Lastly, unless the forms prescribed by the local Government are of the simplest possible kind, the moneylender himself may be unable to fill them up satisfactorily. For though he is generally literate, he is very often insufficiently educated to understand a complicated form.

478. These are the principal proposals which we have received for regulating and restricting the moneylender's operations. Whilst approving of none of them, except on an experimental basis, we have nothing concrete to put in their place. The village moneylender himself requires education almost as much as the peasant. For the rest, the competition of the new credit agencies which we have suggested will in the ordinary course of events compel him to reduce his rates, and mend his ways.

(*) Chapter III, para. 99.

479. *Miscellaneous recommendations.* (1) *Bills of exchange.*—We have already explained that the most common method of recording a trade advance is an entry in the books of the lender and also of the borrower if he keeps accounts; and we have recommended that with the object of increasing the flexibility of the credit system indigenous bankers and joint-stock banks should co-operate to encourage the use of bills of exchange. It will be a long time before these can be introduced into rural areas. But their use, as also that of *muddati hundis*, can certainly be popularised in the towns. The establishment of a central bank should contribute to their increased popularity since it will extend the facilities for rediscounting.

(2) *Stamp duty.*—We also suggest the reduction of the stamp duty. This at present is eighteen pies per cent.; and as the bills current in the market at the present time are generally payable at 61 days, the stamp duty works out at 9 pies per cent. per month or 9 annas per cent. per annum. This is high, and we therefore suggest that the duty on bills payable within six months after date or sight should be reduced to the level of the duty on demand promissory notes; whilst bills payable within six months after date or sight should be reduced to the level of the duty on demand promissory notes; whilst bills payable within 30 days should be treated as demand drafts, and become duty free. The average annual income from the sale of *hundi* stamps in this province for the triennium ending March 31, 1929 was Rs. 72,525, and the loss to provincial revenues entailed by this reduction may therefore be put at Rs. 70,000. We notice, however, that whereas the rates of non-judicial stamp duties have been increased considerably in many other provinces during the last 10 years, the rates in this province still stand at the original figures. They are accordingly 51 years old, and the Government can easily recoup this loss by enhancing the duties in other directions.

(3) *Bankers' association.*—We strongly urge that a provincial bankers' association be formed with branches in important towns, of which not only the joint-stock banks but the indigenous bankers should be members. The principal object of such an association would be to enable banks and bankers to arrive at a better understanding of their common problems and interests.

(4) *Minor recommendations.*—(a) Joint-stock banks should allow indigenous bankers to overdraw for short-periods on the security of equitable mortgages.

(b) The central bank should have power to accommodate indigenous bankers by discounting their *hundis* either (1) at the same rate as joint-stock banks if they undertake to maintain a minimum current account with the central bank, or (2) at a slightly higher rate if they do not.

(c) The proposed bankers' association should take steps to collect information regarding the practices in various markets relating to *hundis*, and so far as possible to standardise them.

480. *Vernacular scripts.*—(a) There should be no restriction, whether legal or customary, on the use of vernacular scripts. An exception is the *sarrafi* script, the use of which should be discouraged, unless existing variations in that script are abolished.

(b) Cheques and pass books should be issued in the vernacular as well as in English.

(iii) *Co-ordination of credit agencies.*

481. *The Reserve Bank.*—We have now completed our proposals for the re-organisation of credit within the province. But the provincial credit system cannot be divorced from the country's credit organisation as a whole, and we venture to indicate briefly, what, in our opinion, that organisation should be. At the top we contemplate that there should be some type of central bank, such as that recommended by the currency commission, whose primary function would be to look to the currency and credit needs of India. Most of our witnesses are in favour of the constitution of such a bank. The bank should have power to expand and contract currency according to the demands of trade, and instruments of credit, like bills, should form a part of the cover of currency. There should be a branch of the bank in every province. Since it must necessarily assume control of all treasuries, sub-treasuries and currency chests, it must have an agency or sub-agency in every district. We have already suggested that these agencies should be entrusted to responsible banks and bankers. But we consider it undesirable that any particular bank or banker should have the monopoly of its agency business. All banks will naturally keep an account with the central bank; so too, we hope, will all bankers. The smaller credit institutions, such as primary co-operative societies, will be linked to it through their own controlling institutions such as the provincial co-operative bank. Thus the central bank will be able to reach and assist even the smallest credit unit.

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PART V.

CHAPTER XII.

INVESTMENT HABIT AND ATTRACTION OF CAPITAL.

482. *The "banking habit."*—The first step in the evolution of modern English banking was taken when the Londoners of the 16th century acquired the habit of depositing their surplus money and valuables in the charge of the city goldsmiths for safe custody, receiving in return a promise to repay on demand. The second step came when these goldsmiths' clients, realising by experience that these promises to pay were as good as payment, began to pass the "notes," on which they were recorded, from hand to hand as if the notes themselves were money. The third step was taken when the goldsmiths discovered that,—partly as the result of the circulation of their own notes as money,—the deposits themselves remained undisturbed for long periods, and conceived the idea of using, with the consent of the owners, those deposits in their own commercial transactions. That was the final step,⁽¹⁾ the step by which the goldsmith was changed from a capitalist into a banker; for "the distinctive function of a banker begins as soon as he uses the money of *others*."⁽²⁾ Thus the English "banking habit" came into existence. It depends entirely on credit. "Credit means that a certain confidence is given and a certain trust reposed . . . Credit is a set of promises to pay; will those promises be kept? Especially in banking, where the liabilities or promises to pay are so large and the time at which to pay them, if exacted, is so short, an instant capacity to meet engagements is the cardinal excellence."⁽³⁾

483. *The banking habit in India.*—Nothing resembling the banking habit which exists in England at present exists in India, save where Indian financial thought has been affected by western influences. In ancient India, according to the Jatakas, the practice of depositing money or valuables for safe custody "with a friend" was not unknown. Even at the present day there are some who still regard the moneylender as the "*sahu*",—the honest man—, and occasionally place their wealth in his care. But in ancient and modern times alike hoarding was the most common form of saving. Of the past, we read that "capital wealth

⁽¹⁾ The invention of the cheque might be regarded as a fourth step; but the cheque is in essence nothing more than an order to a banker to carry out his promise of repaying a deposit on demand, and accordingly involves a change rather in method than in principle.

⁽²⁾ Ricardo, quoted in *Lombard Street*, 1917 edition, page 21.

⁽³⁾ *Lombard Street*, page 22.

was hoarded either in the house—in large mansions over the entrance passage (*dvāra kottahaka*)—under the ground, in brazen jars, and under the river bank.”⁽⁴⁾ And at the present day, the average man usually insists on keeping his valuables in some secret hiding place, usually a recess in the wall or a hole in the ground, of which none but he knows the location.⁽⁵⁾ No doubt the moneylender possesses a safer repository than his client, which, as is currently believed, he and his wife take turns in guarding all night; but does not the robber gang when looting a village invariably make first for the *bania's* house? Again, the Indian is always ready to take up certain types of investment. Merchant prince and peasant alike are willing to sink their money in the purchase or mortgage of land, of house property, of cattle, of standing crops and of trees, and also to lend money on the security of such assets. They are willing, in short, to invest in any security that they can both see and touch. But relatively few Indians in the towns, and still fewer in the villages, would be willing to invest in any enterprise, however remunerative, so long as the only evidence of their investment was a piece of paper containing a “promise to pay”, —a promise, indeed, which most of them would be unable to read. As for a banking deposit, even if the client were willing to trust the banker with his money, the banker himself would be unwilling to accept it. According to his own account, he regards such acceptance as derogatory to his dignity, as suggesting that his own resources were inadequate to his transactions. Relatively few Indian capitalists will receive deposits at all; those who will, usually set a term both to the amount and the period of the deposit.⁽⁶⁾ In short, our *kathical sarrafs* resemble those merchant princes of Venice and Genoa “who inherited nice cultivation as well as great wealth, and who to some extent combined the tastes of an aristocracy with the insight and nerve of men of business;”⁽⁷⁾ and like them they are being pushed out “by the dirty crowd of little men.”

In a word, even amongst the better educated population of the towns there is little of that confidence which is so essential to any banking system; amongst the illiterate and unsophisticated population of the villages it is entirely lacking.

(4) L. C. Jain, *Indigenous Banking in India*, page 8.

(5) In this habit of hoarding, he is by no means singular. For instance, nothing but the misfortunes of the Franco-German War of 1870 “could have extracted the hoards of France from the custody of the French people,” says Bagehot in *Lombard Street*.

(6) The cynic, however, suggests that they refuse to accept deposits because they know that they would not get them if they invited them,—thus making a virtue of necessity.

(7) *Lombard Street*, page 9.

484. *The influence of Government on the investment habit.*—There is, however, one notable exception to this general rule. The middle class Indian, especially perhaps the Indian peasant, whatever he may think of Government's other activities, has complete faith in government's financial probity. He will refuse to deposit his money in a joint-stock bank, or to invest it in commercial stocks and shares; but he is ready to deposit his money in a postal savings bank, or to invest it, according to his capacity, in a cash certificate or a government loan, because he knows both to be *sarkari*. Again, such success as the co-operative department has achieved is probably due in the main to the belief that Government stands behind the department. The failure of a co-operative bank or society causes all the greater disappointment, because in the peasant's mind it implies that for some inexplicable reason Government has failed for once to carry out its promises. Finally, it may be doubted whether paper money would have passed as freely as it does at present, had the "promise to pay" which that paper contains been the promise of a bank instead of government.^(*)

485. *Movements of currency in the province.*—Since the year 1925-26 there has been throughout India a steady return of silver coin from circulation into the currency reserves.^(*) The total return for all India up to the end of October, 1929, amounted to 5,321 lakhs.⁽¹⁰⁾ On the other hand, government currency notes have been growing increasingly popular, as is proved by a slow but steady increase in their active circulation.⁽¹¹⁾ It is clear, therefore, that all over India there is a general tendency for notes to replace silver as a medium of exchange.

486. The position in this province is in some ways peculiar. In the Cawnpore circle⁽¹²⁾ the return of silver began as far back as 1923-24, and must therefore have been uninterrupted since 1920-21, when the post-war return of silver began. Further, the return in this circle is

(*) No bank has issued notes in India since 1862. Previous to that the Banks of Bengal, Bombay and Madras were allowed to issue notes, but they were not legal tender and their circulation was imperfect. In the case of the Bank of Bengal Government would only accept their notes in Bengal itself, but would neither cash nor re-issue them. In the North-Western Provinces (the present province of Agra) Government refused to accept the bank's notes at treasuries. Findlay Shirras' *Indian Finance and Banking*. 1920, pages 236 to 240.

(²) There had been a similar return during the triennium 1920-21 to 1922-23. This, however, was due to special causes and forms part of the aftermath of the war, an explanation of which is given in Findlay Shirras' *Indian Banking and Finance*. pages 14 to 18.

(¹⁰) Figures supplied by the Controller of the Currency.

(¹¹) For figures see the report of the Controller of the Currency, 1927-28, page 28

(¹²) Which, however, includes both Ajmere and Sambhar.

disproportionately large; for instance, during the period April, 1925, to October, 1929, the return was 2,391 lakhs or 45 per cent. of the all-India total. Again, during the two years 1927-28 and 1928-29 the return in the rest of India temporarily ceased, being replaced by a net absorption of 33 lakhs; but in the Cawnpore circle the return in those two years amounted to no less than 711 lakhs. It seems clear, therefore, that the all-India tendency to substitute notes for silver is not, by itself, a sufficient explanation of the facts observed in this province. There must also be some special local reason.

487. One cause is probably the agricultural calamities of the period. In 1924-25 there were serious floods, which caused a great loss of property and nearly destroyed our canal system. The effects of these floods persisted in 1925-26. Thereafter for some eighteen months till the *kharif* of 1927-28, the province was comparatively prosperous; but from that date till October, 1929, one crop failed after another. The province was twice on the verge of a widespread famine, being saved on each occasion by timely rain in October; twice Government actually had to commence famine operations, though only to a small extent and in restricted areas. Finally, the province was visited by a plague of locusts, from which it is even yet not entirely free. Yet in spite of the difficulties of the last six years, such revenue as was not remitted has always been collected without much difficulty; and especially in the crucial period between April and October, 1929, it flowed in with phenomenal regularity. The question which puzzled the authorities was whence the money to pay the revenue was provided. It was almost entirely silver; and the only possible solution seemed to be that payment had been achieved by the liquidation of silver hoards.

488. Since further investigation into the matter seemed likely to produce interesting results, we consulted the currency officers⁽¹³⁾ on the subject, who kindly undertook to provide us for the period April 1, 1924, to January 31, 1930, with figures showing the absorption or return of both notes and coin through every currency chest in the province. These figures are interesting and important in more ways than one. They throw much new light on the general economic situation, both of the province as a whole and of individual districts, and that from an unusual aspect. We have, therefore, attempted a detailed analysis of the causes which affect the movements of currency in the province; and in view of the interest attaching both to the figures and the conclusions

(13) Our thanks are specially due to Mr. H. Denning, C.I.E., late Controller of the Currency, who put us on the track of these statistics, and to Mr. J. B. Taylor, Controller of the Currency, and Mr. B. V. Trivedi, Currency Officer, Cawnpore.

which spring from them, we have reproduced both in an appendix. Here we deal only with those conclusions which are most directly related to the objects of our present enquiry.

489. *Return of coin in June, July and August.*—Over the province as a whole there is a large return of silver coin to currency during the three months June, July and August in any one year. This is the direct result of the large revenue payments which take place in May, June and July. The return is well-nigh universal. It occurs in every district except eight, of which four belong to the hills, where the circumstances are peculiar; whilst the absorption in the other four amounts to only 10½ lakhs in the entire period. The total return of silver in these three months during the six years 1924 to 1929 amounts to 1,948½ lakhs, or an average of 325 lakhs round in each year.

490. *Absorption of coin in other months.*—During the remaining nine months of the year, though 19 districts continue to show a return of silver, yet over the province as a whole there is a net absorption, which in the whole period amounted to 587½ lakhs, giving an average of 90 lakhs in each year. The average return of silver, therefore, in a full year is 235 lakhs.

491. *Absorption of notes.*—Meantime, there is a steady absorption of notes, which goes on throughout the year, alike in the months of heavy revenue payments and in other months. Indeed, the absorption is rather larger in the former period than in the latter; the average figures are 82 lakhs and 77 lakhs per mensem respectively. The gross absorption, however, is reduced by the cancellation of returned notes which are no longer fit for circulation; and the net figure of absorption throughout the period was 2,180½ lakhs, giving an average of 392 lakhs per annum.

492. The position can now be summarised briefly thus. During three months of every year the province returns, mostly through payments of revenue, an average of 325 lakhs of silver coin to currency. During the rest of the year it absorbs 90 lakhs of silver; and throughout the year it absorbs 392 lakhs of notes. In other words, for every three rupees of silver that it returns it absorbs nearly one rupee of silver and nearly four rupees of paper. It will be noticed that the total absorption is greater than the total return by nearly two rupees in eight.

493. The conclusions to be drawn from these figures are clear. The people of this province, like the rest of India, exhibit a decided preference for paper to silver as a medium of exchange, and have been for some years engaged in the process of getting rid of the former and

acquiring the latter. They do absorb a certain amount of silver, but no more than is necessary in a country where the daily transactions of the average man are too small to be carried out in any other medium. Divided over 48 districts, a sum of 90 lakhs means less than two lakhs per district. Divided over a population of 45,376,000 it means, almost exactly, 3 annas 2 pies per head. There can be no doubt, therefore, that the province is merely absorbing, or rather re-absorbing, as much silver as it requires for its daily needs; and for the rest is now dealing entirely in fiduciary currency.

494. The total amount of silver that has been returned in the 70 months from April 1, 1924, to January 31, 1930, is 1,361½ lakhs. The return of silver, however, has been going on since 1920-21. Assuming that the earlier return was at the same rate as the later,⁽¹⁴⁾ we may put the figure for that period at another 9 crores, making a round sum of 23 crores from 1920-21 up to the present date. It seems impossible to suppose that the whole of this merely represents return from active circulation. It must, to a certain extent at all events, represent a return from hoards,—liquidated for the most part with the deliberate object of replacing them by paper.

495. So much at all events may be taken as certain, that the paper which is now replacing silver is not itself being hoarded, for which purpose it is too perishable; the average life of a note in active circulation is calculated to lie between 5½ and 7½ months in the case of all notes up to Rs. 100.⁽¹⁵⁾ There can be no doubt that habits are changing, that people are keeping less money than they did ten or fifteen years ago, and are both spending and investing more. One cause of the growth in direct expenditure is the higher price level of the present day; the high price of food grains brings more money into the pocket of the cultivator, the high price of other commodities forces him to spend, instead of hoarding it. Another cause, especially amongst the upper and middle classes, is the growing demand for certain modern luxuries, such as motor cars and gramophones. The growth of the investment habit is indicated by the rise of that new type of financier, the tenant moneylender, who, according to the census figures, was comparatively rare even ten years ago; and till last year, it was also indicated by the increased price of gilt-edged securities.

496. It must be remembered, however, that there has always been heavy absorption of gold in India, where it is locked up either in

⁽¹⁴⁾ There is reason to believe that it was even larger. There was a time in 1921-22 when Government had to complain of the enormous sums of silver that were being lodged in treasuries not large enough to hold them.

⁽¹⁵⁾ Controller of the Currency's report, 1927-28, page 29.

hoards or in jewellery, principally the latter, for changing fashions require it; and in recent years it has been considerably increased. In the year 1924-25 the net import was 73½ crores, or very nearly double the highest figure previously recorded. This huge addition to India's gold has been attributed to a variety of causes,—the agricultural prosperity which followed on four good harvests; the high prices of the commodities in which the agriculturist usually spends his surplus, and the low price of gold, coupled with a belief that though that price might rise, it could scarcely fall lower. Accordingly, all over India in 1924-25 people with surplus cash were buying gold merely because it was cheap, and though net imports have been considerably reduced in subsequent years, yet according to a recent estimate India's stock at the end of February, 1930, was £585 million.⁽¹⁾ It is, of course, impossible to say how much of this gold was absorbed in the United Provinces, but we may safely assume that it secured its fair share; and if that is so, it is further safe to assume that a part of the fiduciary currency absorbed since 1924-25 has gone in the purchase of gold, and that consequently gold has to some extent replaced silver in the hoards of the province.

497. *Summary of the position in respect of investment and banking.*—It is now possible to summarise the general attitude of the people of this province in the matter of investment and banking.

(1) A certain proportion of the people, which though still relatively small is steadily increasing, have adopted the financial habits of the west in their entirety. They deposit their surplus cash in banks, or invest them freely in government or commercial securities. They have in this matter little left to learn, though there is still much in the shape of additional facilities for investment which they require, and freely demand.

(2) Amongst the rest of the population the habit of investment is much less developed. The average man, whether he lives in town or country, undoubtedly possesses the instinct of saving. But his methods of saving are of the primitive "stocking foot" type, and amount merely to hoarding. He is not averse to investment in principle; it is lack of education which makes him both shy and suspicious, and the range of investments in which he is prepared to risk his money is small,—the purchase and mortgage of land, of house property, of cattle, of crops, or of trees, the pawning of ornaments and moneylending make up the

⁽¹⁾ Leading article in the "Times of India" of May 3, 1930, quoting an article from the Economic Journal. India, however, holds less gold than the United States where the figure is put at \$600 million.

most of them. He will have little to do with paper unless it be government's paper. He will not deposit his money in a bank unless it has government's backing, such as the postal savings bank or the co-operative bank. In a word, he will invest only in securities of a visible or tangible kind, or with persons whom he both knows well and trusts, whether it be a brother cultivator or government. During the last few years he has abated something of his suspicion, as is shown by the fact that he now actually prefers government's paper currency to silver, and has actually for some time been breaking up silver hoards to secure the former. It is true that he has almost certainly been buying and hoarding gold, but with gold as cheap as it was and likely to rise in price he can scarcely be blamed for what at the time was a sound investment. Judging from his recent ventures in silver we can feel little doubt that when the profitable time comes that gold will come out too. Nevertheless, his general outlook, though broader than it was, is still extremely narrow. Especially, he is shy of the ordinary bank; the many failures of recent years justify his caution, but they are not its only cause. He is used to the leisurely and comfortable methods of an eastern bazar: the *mahajan* sitting on a cushion on the floor, with his cash box beside him, his ledgers before him, and his safe in the wall behind him; the friendly chat that precedes business, the spirited discussion of terms, ended with a scrawled entry in the *bahi-khata*, a thumb-impression, and prompt payment from safe or cash box. Contrast with this the methods of a modern bank,—its long counter, its partitioned grill, its row of uninterested clerks, its invisible manager, suavely aloof from all but his most important clients. Is it strange that the peasant, accustomed to the cot and cushion of oriental business, is overawed by the plate-glass and mahogany of the West?

498. *The banking facilities in the province.*—There are operating in the province 36 joint-stock or exchange banks with 98 branches and 18 pay offices. A complete list of these banks and the places at which they are located will be found in the appendix to Chapter III. The distribution by revenue divisions is as follows:—

Meerut	26	Gorakhpur	8
Agra	18	Jhansi	3
Rohilkhand	9	Kumaon	5
Allahabad	19	Lucknow	18
Benares	6	Fyzabad	6

The two western divisions and the divisions of Allahabad and Lucknow possess 76 banks as against 35 in the rest of the province, so that the distribution is extremely uneven. Apart from that, there are 16 districts, together with 18 towns with a population of over 15,000 and many

smaller towns, which possess no modern banking facilities at all, save such as are in a few cases provided by indigenous bankers working on modern lines.

499. *Capital of the joint-stock banks in the province.*—We are indebted *firstly*, to some of the big banks themselves and *secondly*, to the income-tax department for supplying us confidentially⁽¹⁾ with the figures of capital invested by the joint-stock banks in this province. The income-tax estimates are based on the records for the year 1928-29, while the bank figures are as on 31st December, 1929. Combining the two sets of figures we estimate the capital of joint-stock banks invested in the province to be Rs. 491 lakhs.

500. *Post office savings banks.*—The number of post office savings banks is large. All head offices, all sub-post offices and some branch post offices possess them. Deposits and withdrawals by divisions in the year 1928-29 are as follows (to the nearest thousand):—

Division.				Deposits.	Withdrawals.
				Rs.	Rs.
Meerut	..	..	..	46,06,000	39,74,000
Agra ..	..	..	..	44,91,000	48,85,000
Rohilkhand	..	..	..	42,16,000	38,26,000
Allahabad	..	..	..	49,77,000	30,28,000
Jhansi	..	..	..	18,70,000	12,57,000
Benares	..	..	..	39,48,000	36,18,000
Gorakhpur	..	..	..	22,02,000	20,82,000
Kumaon	..	..	..	12,21,000	12,02,000
Lucknow	..	..	..	48,18,000	45,87,000
Fyzabad	..	..	..	32,73,000	28,40,000
Total				3,44,20,000	3,12,51,000

In 1926-27 and 1927-28 the total deposits were respectively Rs. 2,82,39,000 and Rs. 3,25,41,000; the withdrawals were Rs. 2,56,01,000 and Rs. 2,73,96,000. It is clear, therefore, that both deposits and withdrawals are growing, though the figures of withdrawals in 1928-29 are possibly swollen by the general calamities of the year. The classes which principally use the post office savings banks are, (according to the evidence of postal officers themselves), government servants and servants of local bodies, railways, professional men, teachers, students; in fact the educated and middle classes generally. To these, however, must certainly be added a number of menials, whether in public or private service. At our request the postal authorities were good enough to classify by occupations some 10 per cent. of the savin^gs

⁽¹⁾ In justice to the department it should be stated that the figures supplied were totals merely, so that there was no breach of confidence.

banks accounts in one of the largest offices in the province. The results of this classification show that out of 2,600 accounts only 400, or 15·3 per cent., were rural; whilst of that figure a considerable proportion belong to persons whose habits of life are in reality urban, and who are only resident in rural areas by reason of their occupation, such as government and railway officials, teachers and shop-keepers. The average annual figure of deposits over a period of three years is 313 lakhs; the average annual figure of withdrawals in the same period is 281 lakhs. There is, therefore, always a balance in credit on the working of any one year.

501. *Post office cash certificates.*—A post office cash certificate can be obtained wherever there is a post office savings bank. The rounded figures of issues and discharges during the two years 1927-28 and 1928-29 by divisions are as follows :—⁽¹⁸⁾

Division.	1927-28.		1928-29.	
	Issues.	Discharges.	Issues.	Discharges.
	Rs.	Rs.	Rs.	Rs.
Meerut	10,23,000	6,07,000	7,86,000	7,16,000
Agra	10,30,000	5,27,000	7,55,000	8,28,000
Rohilkhand	8,35,000	3,08,000	7,57,000	6,52,000
Allahabad	13,54,000	4,26,000	12,25,000	6,40,000
Jhansi	3,46,000	1,98,000	2,62,000	3,08,000
Benares	9,38,000	8,07,000	7,87,000	7,52,000
Gorakhpur	6,20,000	2,79,000	5,65,000	3,75,000
Kumaon	2,50,000	1,41,000	2,45,000	2,27,000
Lucknow	11,96,000	5,22,000	8,79,000	8,98,000
Fyzabad	8,51,000	2,69,000	7,89,000	6,81,000
Total	64,66,000	36,44,000	70,48,000	60,61,000

According to the officers of the postal department cash certificates are popular mainly amongst the educated classes—government officials, professional men, and to a much smaller extent amongst shop-keepers and monied men generally.

⁽¹⁸⁾ It is necessary here to give the figures of two years, because the discharges of 1928-29 were unusually high, principally, we imagine, because the five-year period was drawing to a close, but partly also because that year was generally unfavourable.

502. Post office insurance fund.—The post office maintains an insurance fund which is open to all permanent government servants, whether gazetted or non-gazetted, to the temporary government servants in certain departments, to the servants of local bodies, and to the permanent servants of all universities established by Government and under government supervision. The scheme includes (1) life insurance, i.e., the payment of a given sum of money on the death of an individual to his legal representatives or assigns; (2) endowment assurance, i.e., the payment of a given sum of money to an individual or his assigns at a certain specified period of his life or his legal representatives or assigns at his death, if death occurs before the specified date; and (3) monthly allowance; the payment of this may begin immediately or at some specified future date. The minimum and maximum limits both in the case of life insurance and endowment assurance are respectively Rs. 100 and Rs. 10,000. The latter is payable at 45 or any subsequent age. The limits of the monthly allowance are respectively eight annas minimum and Rs. 50 maximum.

Insurance and assurance premia are paid monthly. The monthly allowance is secured either by payment of money in a single sum, in which case the allowance commences at once; or payment of a stipulated number of monthly instalments extending over a period of at least five years, in which case the allowance commences after the expiration of that term.

The number and value of the policies taken out during the three years 1926-27 to 1928-29 are as follows :—

Year.			Number of policies.		Value of policies.
					Rs.
1926-27	625	15,85,000
1927-28	695	17,15,600
1928-29	599	14,21,800

The average value per policy amounts to Rs. 2,380.

It has been suggested that the scheme might be extended to the general public. Few, if any, of our witnesses, however, have mentioned the subject. We shall refer later to the possibility of extending it as suggested.

503. Purchase and sale of securities.—At present there is no stock exchange in the province; and some experienced witnesses recommend that one be instituted, to facilitate dealings in the stocks and shares of companies incorporated in this province, which are not obtainable in any other market. They admit, however, that there is not at present sufficient business to justify such institution, and that the joint-stock banks afford all the facilities that are at present required, or, at all

events, all the facilities which the banks themselves command; for the banks cannot supply securities which are not obtainable on the stock exchanges of Calcutta or Bombay. There appears at present to be neither need, nor strong demand, for a stock exchange. Meantime, investors can buy or sell securities, whether government or commercial, through the agency of a joint-stock bank, which usually charges a small commission, not exceeding four annas per one hundred rupees, in addition to the brokerage charged by the stock-broker employed by the bank to carry out the deal. It is also possible to obtain government securities through the agency of the post office, but only to a limit of Rs. 5,000 per annum in each individual case, apart from new issues, regarding which there is no limit.

504. *Adequacy of existing facilities for investment.*—Taking the province as a whole, the existing facilities for saving and investment are undoubtedly inadequate. The post office throws its net wide; and, indeed, we doubt whether it could safely throw it much wider. Some witnesses advocate extending savings bank and cash certificate work to every branch post office. They forget, however, that where a branch office does not already carry out this work, it is probably located in some small private house in a remote village, where it would be impossible to ensure safe custody of the monies received in such operations. As has already been pointed out, banking facilities for the province as a whole are both unequally distributed and inadequate. There are large tracts which possess no bank at all, whilst even where they do exist, they generally serve only the urban area in which they are situated and a restricted rural area around it. Lastly, the facilities for investing in stocks, shares and securities of all kinds, which are possibly adequate for the classes likely to interest themselves in such investment, are for the vast majority of the population so greatly restricted as to be almost non-existent. In terms of population it may be said that out of 45½ millions of people, possibly 2½ millions have all the investment facilities they require. The rest of the population must be content with such facilities as the post office affords, and with moneylending in its various forms.

505. *Facilities for remittance.*—Remittance in its literal sense means the transmission of money from one place to another; in its technical sense it also means any device that avoids actual transmission of money. In a well-organised banking system, where the mobilization of capital is controlled by a central authority, these devices are so numerous and so effective that actual "remittance" is practically confined to till-money. In this province, however, where banking facilities are inadequate and unorganised, where capital is broken up into unequal

holdings, each controlled by an independent capitalist, remittance becomes a matter of first-class importance.

506. The actual transmission of money, whatever the means of communication or the conveyance selected, always involves both considerable risk and considerable expense. It can only be justified if it is unavoidable,—if the transfer is from a place where the money is unsafe to a place where it is safe, or from a place where it is not wanted to a place where it is wanted, and cannot be otherwise obtained. There are still many places in the province where the only manner of obtaining cash is to import it. There is, indeed, one method of transmission which is neither risky nor expensive, namely, transmission of notes and coin by insured post, the charge for which is only two annas per one hundred rupees in addition to the registration and postage fees; but the amount that can be thus sent by post is limited to Rs. 3,000 per parcel.

507. There are many devices by which the actual transmission of cash from one place to another can be avoided—the cheque, the *hundi*, the bank draft, the money order, the currency transfer and the supply bill. Where there are clearing house facilities, the use of a cheque avoids not only the transmission of money from place to place, but its passage from hand to hand; where there are no such facilities, the payee's bank at the place of destination has to collect money from the agent or representative of the drawer's bank in that place. The *hundi* in its simplest form exactly resembles the cheque, save that the person who is ordered to make the payment is not a bank. All other methods of remittance, whilst avoiding the transmission of money from one place to another, involve the passage of money in both places. For instance, the Hapur merchant who wishes to make a payment in Cawnpore will pay the sum due to a bank in Hapur; that bank's agent or representative in Cawnpore on receipt of the bank draft will pay the money to the recipient. The procedure is precisely the same in the case of a money order or a supply bill, save that post offices or treasuries take the place of the banks. The only difference between a telegraphic transfer and a bank draft, or a currency transfer and a supply bill, is that the former in each case is sent by wire and the latter by post.

508. A "remittance facility" is a saleable commodity; anybody may buy it, though only comparatively few are in a position to sell it. And being a saleable commodity it has its price. That price is made up of two elements. There is, *firstly*, the cost of transfer, which the purchaser of the remittance has to pay to or receive from the seller. There is, *secondly*, the interest on the money transmitted during the

period of transit, which obviously benefits the seller, since he enjoys the use of the money between the time when he receives it from the purchaser and the time when his agent at the place of destination pays it to the recipient. The price of a remittance facility, therefore, is usually the difference between the cost of transfer and the interest for the time of transit. In practice, however, the rates are generally fixed, save that in the case of a telegraphic transfer or currency transfer the telegraphic charge is added.

509. Remittance agencies.—(1) *The Imperial Bank of India.*—The rates charged by the bank differ according to circumstances :—

- (a) When the purchaser is a member of the public and the transfer is from one branch of the bank to another, the rates are $\frac{1}{2}$ per cent. on sums up to a thousand rupees, $\frac{1}{3}$ per cent. on sums between a thousand and ten thousand rupees, and $\frac{1}{4}$ per cent. on sums above ten thousand rupees.
- (b) If another bank wishes to purchase remittance through the Imperial Bank to a place where the purchaser has no branch, it pays the usual rates mentioned above.
- (c) Where a bank purchases a transfer from one of its branches to another, the rate in the case of sums above ten thousand rupees is reduced to $\frac{1}{3}$ per cent.
- (d) The bank is also prepared to purchase *hundis* and telegraphic transfers from other banks and from the public, but it is cautious in accepting such business since it involves the risk of non-payment at destination. In this case the rates vary according to the standing of the client. The maximum rate is said to be $\frac{1}{2}$ per cent., but it is often much less.
- (e) The Imperial Bank is also willing to accept bills for collection, receiving payment at destination and subsequently making it over to the bill collector. The charges are the same as in the case of the purchase of *hundis*.
- (f) The competition with another bank occasionally compels the Imperial Bank to reduce its rates. Except as described above, however, it gives no preference to banks or to indigenous bankers.

(2) *Commercial banks.*—Exchange and joint-stock banks also buy and sell remittance. Their rates vary from client to client and also depend on market prices. Where they have to face competition with the Imperial Bank, they usually charge the same rates; elsewhere their charges are often higher.

(8) *Indigenous bankers*.—They buy and sell *hundis*; their rates depend upon supply and demand, but nowhere exceed the rates charged by banks. When the market cannot supply their requirements, they obtain what they need from commercial banks. In one respect their methods are different from those of banks. A bank would rarely if ever resell a bill which it had purchased in the market, except to another bank which had a branch in the place of payment. An indigenous banker, on the other hand, would often do so, even if he have a branch or agent at destination.

(4) *Merchants*.—To the agencies mentioned above, the purchase or sale of remittance is merely a financial operation out of which they derive profit. To the merchant, however, the purchase or sale of remittance is necessary to enable him to meet his obligations. It is his requirements which determine the market rates, which according to circumstances may be in favour of the buyer or of the seller, ranging from $\frac{1}{2}$ per cent. discount to $\frac{1}{2}$ per cent. premium. The *hundi* is in the long run the cheapest form of remittance, since it is usually available at or below par, and the only other charge which the buyer ever has to pay is the *dallal's* brokerage, which varies between $\frac{1}{4}$ and $\frac{1}{2}$ per cent., as against the bank's commission of $\frac{1}{2}$ per cent.

(5) *Post office*.—The principal importance of the post office as a remittance agency is that it exists in many places where no other such agency is found. It issues both money orders and sterling postal orders. The rate on the former is exceedingly high,—the minimum is one per cent.^(*) The cause is said to be historical, for the rates date back to a time when bank remittance facilities were few, and the *hundi* rate was at or near 1 per cent. The rate on the sterling postal order is one anna on any value up to 2s. 6d., $1\frac{1}{2}$ annas on any value from 3s. to 15s., and two annas on any value from 15s. 6d. to 21s. For example, at 18d. to the rupee, the charge on a 20s. postal order is exactly half the charge on a money order for its rupee equivalent; and as British postal orders sold in India are payable at any inland post office, it is not surprising to hear from a member of our committee that he himself often uses a sterling postal order for payments in India instead of a money order, and that the practice is not uncommon. The total value of money orders issued in 1928-29 was Rs. 8,67,59,000, and of money orders paid was Rs. 18,85,28,000.

510. *Treasuries, currency chests, and supply bills*.—The money held in a government treasury consists of two parts. The first is the

(*) The exact rates are, on any sum not exceeding Rs. 10 two annas, on any sum exceeding Rs. 10 but not exceeding Rs. 25 four annas, on any sum exceeding Rs. 25 four annas for each complete sum of Rs. 25 and four annas for the remainder, provided that if the remainder does not exceed Rs. 10 the charge is only two annas. This is equivalent to $1\frac{1}{2}$ per cent. on Rs. 10, $1\frac{1}{2}$ per cent. on Rs. 15, $1\frac{1}{2}$ per cent. on Rs. 20 1 per cent. on Rs. 25.

"treasury balance," from which Government's disbursements are made and into which government receipts are paid. The second is the "currency chest" balance, which consists of notes which are not "in circulation" and of coin which forms part of the metallic reserve held against the issue of notes, and known as the paper currency reserve.⁽²⁰⁾ In theory, the primary object of these chests is to enable the public to exchange coin for notes, or notes for coin, without disturbing the note circulation; for a deposit of coin means an addition to the metallic reserve, which makes possible an additional issue of notes, whilst a deposit of notes means their withdrawal from circulation, which makes it possible to release a part of the metallic reserve in lieu. In practice, however, such exchanges are made from the treasury balance in the first place, and the chest is used only when the proportion of notes or coin in the former has become inconveniently large. At the present time the principal function of the currency chest is to facilitate remittance without actual movement of coin. "A transfer of money (notes or coin) is made between the treasury balance and the currency chest at one place in consideration of the same amount being transferred at another place, either between the currency chest and the treasury balance, or between the currency chest and the Imperial Bank of India."⁽²¹⁾ For instance, if in a surplus treasury such as Gorakhpur there are either notes or coin in excess of the treasury's needs, and the Basti treasury at the same time has run short of either notes or coin, then the latter treasury can supply its needs from its currency chest, provided that the former treasury transfers an equivalent sum of either notes or coin to its currency chest.⁽²²⁾ It is also possible to transfer currency of any kind from one chest to another; such a remittance, though it involves movement of notes or coin, avoids disturbing either the treasury balance or the circulation, and also the locking up of government funds in transit. In both cases the remittance is on Government account; but in certain circumstances the treasury balances, or the currency chest, can also be used for trade remittances by means of a "supply bill" or (if it is desired to carry out the transaction by telegraph) a "currency telegraphic transfer." The applicant pays the amount required at the

⁽²⁰⁾ Under the Indian Paper Currency Act, 1928, as amended by the Currency Act, 1927. The coin may be either rupees, silver half rupees or gold. Resource Manual, Article 6.

⁽²¹⁾ Resource Manual, Article 114 (6) (one misprint has been corrected here). There are four other types of remittance mentioned in this article besides the two described. Of these, one is similar to the first of the latter two, and describes the procedure where the treasury balance is kept in the Imperial Bank; the other three relate to transfers between treasury and treasury, or treasury and Imperial Bank.

⁽²²⁾ A transfer of notes at one treasury may be balanced by a transfer of coin at the other without disturbing the note circulation; the explanation is the same as that given in the case of exchanges by the public. The opposite payment is usually made at Cawnpore.

treasury of despatch : the payee, on receipt of the bill or of a wire informing him of the transfer, draws the money from the treasury of destination. There is a charge of $\frac{1}{8}$ per cent. for amounts of Rs. 10,000 and over, and of $\frac{1}{4}$ per cent. for amounts of less than Rs. 10,000; in the case of the currency transfer the telegram charge must also be paid. Save when the remittance is sent to one of the seven places⁽²³⁾ where currency offices exist, the treasury officer before issuing one of these documents must obtain the previous sanction of the Deputy Controller of the Currency, who may, however, grant a general sanction to "cover the issue of a number of currency transfers or supply bills to the same person up to a certain limit of amount over a certain period."⁽²⁴⁾ Such documents can only be issued at or on a sub-treasury in special circumstances and under special instructions from the Deputy Controller. The minimum amount for a supply bill is Rs. 1,000, for a currency transfer Rs. 5,000.

511. *Defects in the system of remittance.*—Even where ample facilities for remittance exist the system is defective. *Firstly*, where there is no competition between banks the cost of transfer is high; where there is, the Imperial Bank has an advantage in its control of the currency chest. *Secondly*, compared with the cost of other forms of remittance, the charges for money orders are unduly high. *Thirdly*, the difficulties in the way of obtaining a currency transfer or supply bill greatly reduce their utility. The most important defect, however, is that there are still many places with practically no remittance facilities at all. This is a point which many of our witnesses have brought out strongly. As an instance, we mention the case of Ferozabad, a small town in the Agra district, which is the centre of the manufacture both of glass and glassware. Large sums of money are required in the place for the payment of wages, the purchase of glass by the artisans from the manufactory, and of glassware from the artisans by the middlemen. There is no bank. A sub-treasury exists, but supply bills cannot usually be made payable on sub-treasuries. The only remittance agency, therefore, is the post office, and the amount that can be remitted by money order is limited. The result is that large sums of money have to be imported by rail; but the amount that can thus be imported is limited, unless the importer is prepared to pay a high insurance rate (one per cent.). It is not surprising that the witnesses from that place have much to say on the subject of remittance.

512. *The cheque habit.*—The growth of the cheque habit has been seriously retarded by the illiteracy of a large majority of the population.

(²³) Bombay, Calcutta, Cawnpore, Karachi, Lahore, Madras and Rangoon.

(²⁴) Resource Manual, Article 159 (c).

Another difficulty which stands in the way of its expansion is the objection of most joint-stock banks to the use of vernacular scripts. Any person presenting a cheque written in vernacular for encashment must either be identified to the satisfaction of the bank authorities or must fill in or endorse the cheque in the presence of such an authority. The peculiarities of the scripts themselves explain these objections. For instance, in written Urdu vowels and diacritical marks are usually omitted and letters are run together which ought to be kept separate, with the result that written Urdu is almost a shorthand.⁽²⁾ Written Nagri should be sufficiently legible since all letters are written below a thick line and must be separately formed. On the other hand, the letters themselves are often complicated and when they are written quickly it is sometimes difficult to say where one letter ends and another begins. In some variations of Nagri, too, such as *Mundi*, the upper line is often omitted and the letters are run together, and in the commercial world the script is generally some such variation of Nagri. Nevertheless it should be possible to devise means of relaxing the present restrictions on the use of vernacular scripts in writing cheques, though it might indeed be necessary to insist on the use of English numerals.

513. *The stamp duty on cheques.*—Two or three years ago the stamp duty on cheques was abolished with the object of fostering the growth of the cheque habit. Our witnesses agree that the concession has had the effect of increasing the number of cheques actually used in making payments, thereby reducing the use of currency for this purpose, but it has not led to any appreciable increase in the number of accounts. This, we suggest, could scarcely be expected. The opening of an account depends upon the existence of the banking habit, and the concession was not sufficiently important to induce persons who do not already possess that habit to acquire it. The increased use of cheques, however, has probably afforded a certain stimulus to the growth of that habit.

514. *Acceptance of cheques in payment of government dues.*—It has been suggested that were government to accept freely cheques in payment of its dues and also to make its own payments by cheques the result will probably be an increase in the opening of accounts. So far as the acceptance of cheques by government is concerned, the position is as follows. Government will accept at its treasuries a cheque on any bank which would be accepted by the Imperial Bank of India, provided that the treasury is at a place where government funds are actually held by the Imperial Bank. The result of these regulations is that government will not accept a cheque on any bank at 31 treasuries

(2) Written Urdu is generally known as *shiqast*, literally broken.

out of 47, or at any sub-treasury; whilst even at the remaining 16 treasuries government will accept cheques on only a very limited number of banks. We have no doubt whatever that if government could see its way to relax these restrictions the result would be a considerable increase in the number of banking accounts. We know of landlords who actually have accounts, yet thanks to the regulations are precluded from using them for payment of land revenue or other dues to government. Such men must either pay the high money order fee or incur the trouble, risk and expense of transmitting cash to some outlying *tahsil*. Yet they certainly would use cheques for government payments if they could, and we cannot doubt that others who do not at present possess banking accounts would gradually open them.

515. *Use of cheques for government payments.*—Since April, 1926, it has been the practice in this province to make the great majority of all government payments by cheque. The only important exceptions are payments of pensions and of interest on government securities. Every creditor of government, whether he be an official or non-official, is paid by a cheque drawn on the treasury or the Imperial Bank which he can pass through his banking account if he possesses one, like any other cheque. If he desires it his cheque will be sent direct to his bank whether the bank is in the district he resides in or not. There is no doubt that this system has caused an appreciable increase in the number of banking accounts. Enquiries made in one of our largest pay offices show that the number of officers whose cheques are despatched direct to banks is larger than it was in 1926. Again, soon after the scheme first came into operation, complaints were received from certain officers who were constantly on tour in rural areas that the receipt of their cheques was greatly delayed because they followed them from one branch post office to another. The accounts officers suggested to them that they could avoid this difficulty by opening banking accounts, and subsequent experience showed that many did. There can be little doubt, therefore, that the free use of cheques by government in payment of its dues, which is a peculiarity of the accounts system of this province, has had a certain effect in fostering the banking habit.

516. *Distribution of capital.*—The capital available in the province is most unevenly distributed. It is broken up in holdings of all sorts and sizes, from the hundreds of the little village *bania* to the millions of the *kothiwal sarraf*. It is held in all sorts of repositories,—the villager's earthen pot buried in a hole in the ground, the *mahajan's* safe, the *raja's toshakhana*, the bank's vault, and the government treasury. It is owned by capitalists of every description, from the Chamar labourer

and the petty cultivator to the landed magnate and the big city merchant,—nay, even the Hindu deity, whether he be the godling of a village shrine or a major god in a Benares temple. A good deal of it is active, but only in its own restricted circle; it is not like English capital which, in Bagehot's phrase, "runs as surely and instantly where it is most wanted and where there is most to be made of it, as water runs to find its level." (") Even at the present day a large part of this capital is dormant: some, because its owners will only use it in specific ways and are distrustful of or prejudiced against, other forms of investment some, because it belongs to orthodox Muslims who, for religious reasons, decline to accept interest: some, because investments are not available. A certain amount, (notably that which belongs to Hindu temples and shrines), is not only dormant but well-nigh dead, being dedicated to religious purposes. Further, if proposals that we have made in other chapters ever come to fruition,—if the agriculturist can be taught to give up unproductive borrowings, if, when credit becomes cheaper through the activities of the Co-operative department, less capital is wasted on the payment of debt charges themselves,—then a part of the capital that is now in regular though wasteful use will become available for more profitable investments. The question is how to mobilize all this spare capital for the ultimate benefit of the country.

517. *The needs of various classes of potential investors.*—Before any reply can be given to this question, it is necessary to examine the needs of the various classes who possess it, and their special prejudices and idiosyncracies in the matter of investment.

(1) *The small investor.*—Few villagers have ever much capital to spare; what they have they at present prefer to utilize in lending to fellow-villagers. Such a man is never likely to be attracted by any type of commercial bank. *Firstly*, even if banks were so multiplied that a branch existed in every tahsil headquarters, the depositor would often have to travel a long distance to obtain money, of which as a rule he would only require a small amount on each occasion. In such circumstances, he would naturally prefer to keep his money in his own possession. *Secondly*, he is uneducated, and accordingly incapable of making use of the cheque system as a method of payment, whilst his ordinary transactions are in any case too small to require it. *Thirdly*, he is generally an agriculturist who, by the nature of his business, is compelled to work largely on credit. He would, therefore, invariably regard a bank rather as an institution from which he could conveniently borrow, than as one to which he could profitably lend; but his security

is one that no ordinary bank would accept. What has been said of the small rural investor is, *mutatis mutandis*, equally true of the small urban investor. In his case, too, lack of education and the smallness of his daily transactions prevent him from depositing money in a bank; he, too, is in frequent need of credit; he, too, has few assets which a bank would accept as security. The problem of the small investor can only be solved by the development of the investment facilities which he already possesses, namely, the co-operative credit society, the savings bank, and the postal cash certificate.

(2) *The rural monied class.*—The village *mahajan*, the wealthy landlord, or the prosperous tenant all have certain reserves available for investment, partly acquired from agriculture, partly from subsidiary occupations of which moneylending is the most important, partly from subsidiary sources of income, such as the remittances of friends or relations. As a class they have a certain knowledge of the modern commercial world, acquired mainly through their connexion, in the guise of *beopari*, with the grain markets of their neighbourhood. For instance, many of them must have some sort of acquaintance, however distant, with the dealings and methods of the joint-stock banks operating in those markets. They also utilize their capital, but only in certain specific types of investment, or those which they know or believe to be backed by government. But they must often have capital to spare, especially in good years,—which capital, if it proves possible to re-organise agricultural credit, is likely to increase in the future. Some would absorb them and their capital in the co-operative credit society or bank,—a proposal full of difficulties which is considered elsewhere.^(*) A more suitable outlet for their money would be the land mortgage bank which we have recommended. Though many of them, we fear, are likely, for a long time yet, to remain distrustful of joint-stock banks in particular, and of any investment save those to which they are accustomed, yet it should be possible, amongst the more enlightened, to draw a part of their capital into the bank's coffers, provided that that bank is available to such investors on the spot; and if that can be done, then, through the agency of that bank, such capital will also be attracted to investments in government or commercial securities, and so into the principal money markets of the country.

(3) *The urban mercantile community.*—The urban mercantile community are well acquainted with all the modern methods of investments and have at their command all facilities for such investment as already exist. All that they require is expansion of those facilities, both in respect of remittance and credit, though principally the former.

(4) *The private capitalist.*—This term, for want of a better, may be used as including that class of monied person,—the pensioned official or the professional man,—who while possessing capital is engaged in no business that requires its use; the class, in short, which above all others has money available for long-term investment. Their needs vary according to circumstances. Some private capitalists fall in this respect in the same category as the rural monied class, some in the same category as the mercantile community; and their needs, therefore, require no special consideration. It is perhaps this class which uses most freely the facilities provided by joint-stock banks.

518. *Proposals for the attraction of capital.*—We have now examined the habits of various classes of people in the matter of saving and investment. We have noted that whilst a small minority are, in both directions, ready to make use of all the modern facilities available to them, the great majority still have little confidence in any repository of capital which is not under their immediate supervision; or in any financial enterprise, unless they can watch its working, or unless they know or believe it to be backed by government. On the other hand, we have also noted an increasing confidence in Government's paper money coupled with a readiness to break up silver hoards, which, however, is probably set off to some extent by additions to gold hoards. We have described the existing facilities for investment in the province, and for the mobilization of capital by means of remittance. Finally, we have examined the existing distribution of capital and the needs of various classes of investors for further facilities. On the basis of this discussion we now offer proposals for modifying or expanding existing investment facilities, which, we hope, will, on the one hand, satisfy the investor's various needs, and, on the other, have the effect of attracting capital, which is at present either not used at all or unprofitably used, into more remunerative channels.

519. *Post office facilities.*—(1) *Savings bank and post office cash certificates.*—We have received evidence from a large number of postal officers on the question of making the savings bank and the cash certificates more attractive. The proposals may be summarized thus.

With respect to the savings bank, a large majority of postmasters and superintendents of post offices suggest—

(a) that the present annual limit of Rs. 750 for deposits should be raised to figures varying between Rs. 1,500 and Rs. 5,000;

(b) that the rate of interest should be increased to rates varying between 4 and 6 per cent;

whilst one superintendent suggests a rate higher than that allowed by the joint-stock banks. With the second proposal we find ourselves unable to agree. The limitations imposed on withdrawal mean that a savings bank deposit is to some extent fixed, which is the justification for paying interest; but there is no reason why Government should pay for deposits, which are also, to some extent, of a current nature, rates of interest higher than a bank would pay on a deposit that is entirely fixed. We see, however, no objection to raising both the annual limit and the maximum total to a reasonable amount, not exceeding double the present figures. We doubt whether this change would appreciably affect the joint-stock banks, for the class of investor which will use the latter is entirely different to the class of investor which will use the former. So far as the main money market is concerned, the increase would make no difference: for whether the money is located in a joint-stock bank or in a savings bank, it would always be available,—in the latter case through the reserve bank, if one is instituted, or the Imperial Bank.

(2) With respect to post office cash certificates, the proposals of the post office authorities are as follows:—

- (a) That interest should be allowed from an earlier date than the end of a period of one year which obtains at present. Opinions vary regarding the date. Some officers say that interest should run from the date of issue, some from month to month, some from three, and others from six months after the date of purchase;
- (b) that the maximum holding for one depositor should be raised to figures which vary between Rs. 20,000 and Rs. 40,000.
- (c) That the selling prices should be reduced, which amounts, of course, to an increase in the interest.

We do not recommend any of these proposals. Indeed, we should be more willing to see the rate of interest reduced, in conformity with the deposit rates of banks, than increased; for there can be little doubt that the present rate is sufficiently attractive to create a certain competition between Government and the banks.^(a) The maximum we consider sufficiently high, since the investor who has larger sums than that maximum to place can always do so in government or other securities. We have, however, three minor changes to recommend—

- (a) that the agency of joint-stock banks and of indigenous bankers working on modern lines, should be used on a commission basis to sell certificates;
- (b) that up to the maximum limit in any one case, the certificate should be made negotiable. A transfer from one holder

^(a) Our witnesses differ regarding the desirability of this competition. Perhaps it is fair to say that the investor regards it as healthy, the banker does not.

to another should be registered in any post office without charge. The main advantage of this change would be to make it possible to use postal cash certificates as security for a loan.

- (c) that there should be no maximum limit on the number of certificates held by a bank as the result of such transfers, provided that they are held by way of security and that a declaration to that effect is signed by transferor and transferee at the time of transfer.

520. At the same time, we consider that these certificates are not as well known, and, therefore, not as popular as they should be. In this respect we mention the recommendations of the postal authorities as follows :—

- (a) Free distribution through postmen of vernacular leaflets and notices explaining the advantages of the certificate;
- (b) free distribution of the rules governing cash certificates in vernacular as well as English;
- (c) the exhibition of vernacular posters in all principal places of resort, both in towns and villages, e.g., bazars, railway stations, hotels and the houses of patwaris, schoolmasters and *zamindars*; and
- (d) personal propaganda through postal officials of all grades, and also through district and village officials,—with the very important proviso, that no coercion be used.^(*)

We consider that these recommendations are all sound. To the various methods of advertisement, we are inclined to add a freer use of the cinema.

521. *Money order charges.*—We regard the present money order charges as indefensibly high. We have already pointed out that many already use the sterling post office order in lieu of a money order. We also further point out that it is actually cheaper to remit full notes by insured post, than it is to remit money by money order. The rate, in our opinion, should not exceed double the Imperial Bank rates for remittances, which are given in paragraph 509 above. There will, no doubt, be a certain loss of revenue, but we fancy that it will be largely counterbalanced by increased business; whilst by reducing the temptation to send notes or coin by insured post, movements of cash will *pro tanto* be avoided.

522. In this connexion we are inclined also to recommend the introduction of a rupee postal order of the same type as the sterling postal

(*) There are other minor recommendations which will be found in the evidence of postal officials in volume III.

order. Our object here, however, is not so much to cheapen remittance as to familiarize the people with the use of an "order to pay" which, in all essentials, resembles the bank cheque, save that that order is addressed to a postmaster instead of a banker.

523. Two other suggestions for developing the remittance facilities provided by the post office have been made to us by experienced witnesses.

(a) *The post office cheque account.*—The depositor places in the post office a limited sum of money, on which he is allowed to draw a limited number of cheques, usually one or two per week. No interest is paid on the account, and no overdraft is permitted. These cheque accounts are said to be popular in Germany, where they have been of appreciable assistance in the task of improving remittance and credit facilities.

(b) *The issue of travellers' letters of credit.*—There is much travelling in India, not only on business, but in connexion with marriage ceremonies and pilgrimages. Many travellers of this description do not deal with banks, and at present have to carry undesirably large quantities of cash on their travels. A letter of credit would make this unnecessary. There is, of course, a certain danger of fraud, but the provision of a specimen signature and a photograph, as on passports, would greatly reduce it.

We are inclined to support the former recommendation, provided it is restricted to places where no bank or indigenous banker working on modern lines exists. The latter should prove of considerable use in the circumstances described; whilst both will have the effect of accustoming the people to the idea that paper in certain circumstances is as good as money. The fact that both schemes will be managed by a government department should secure the necessary confidence.

524. *Postal insurance.*—We have already mentioned a suggestion that the postal insurance scheme should be extended to the general public. Such private life insurance and assurance offices as exist (none is actually registered in the province), operate mostly in the towns; and we regard it as unwise for Government to enter into competition with them. But their operations do not extend to the rural areas; and until they do, we see no objection to the proposed extension in rural areas only.

525. In making these various recommendations, we realise that they will certainly involve additional expenditure, especially on staff. We venture, therefore, to add a *caveat* to the effect that no such change

be introduced unless it is either likely to be directly remunerative, or at least involve, on balance, no further expense to the State.

526. *Relaxation of the restrictions on currency transfers and supply bills.*—A currency telegraphic transfer is debited or credited direct to the currency chest.⁽³⁰⁾ The supply bill is debited or credited in the first place to the treasury balance; but if that balance falls below the normal figure fixed by the Deputy Controller of the Currency, ⁽³¹⁾ it must be recouped by a transfer from the currency chest, so that ultimately the burden of supply bills also falls on that chest. These chests form an important part of the currency system, since they enable the authorities to maintain the statutory relation between the note circulation and the metallic reserve which covers it; this is their primary function, and their use as a method of providing remittance facilities, whether on government or commercial account, must always be so restricted as not to interfere with it. Nevertheless, we consider that the rules governing the issue of these documents can be relaxed in two directions. *Firstly*, the Deputy Controller may already give a general sanction covering "the issue of a number of currency transfers or supply bills to the same person up to a certain limited amount over a certain period."⁽³²⁾ On the analogy of this rule, we suggest that the treasury officer might be given power to issue any number of currency transfers and supply bills to any number of applicants, "up to a certain limit of amount over a certain period." *Secondly*, we consider that in the case of sub-treasuries at places such as Pirozabad, which are centres of trade and yet possess no banking or any other remittance agency save the post office, it should be made permissible to issue currency transfers or supply bills under the same restrictions regarding previous sanction as at present apply to issues from treasuries. We realize that this will probably entail the maintenance at such sub-treasuries of a larger reserve of currency in the chest than is allowed at present, namely, one lakh. But this restriction is due to two causes, both of which appear to us removable. The first is lack of accommodation; but that could generally be solved by the provision of a second chest. The second is the lack of sufficiently responsible staff at a sub-treasury. The sub-treasury officer is always the tahsildar, who has numerous other duties to carry out and little time for his sub-treasury work; whilst there is only one low paid clerk (the *tahvildar*) in the cash department. At the present time, however, in this province, the entire treasury system is being reorganised, in connexion with which a class of full-time and experienced sub-treasury officers has come into existence. Since the number of

⁽³⁰⁾ Resource Manual, articles 164(c) and 165 (f).

⁽³¹⁾ See Resource Manual, article 165.

⁽³²⁾ Resource Manual, article 166(c).

sub-treasuries at which these special arrangements will be necessary is not likely to be large, the additional cost involved in appointing special sub-treasury officers of the new kind in these sub-treasuries should not be prohibitive. *Finally*, we suggest that both banks and bankers should enjoy preferential treatment, both in the matter of rates and of availability.

527. *Railway earnings*.—As has been explained in the appendix to this chapter, the earnings of railways are at present credited at the treasuries of sixteen district headquarters. The natural result is greatly to increase the amount of currency available at those treasuries, with the result that sooner or later their surpluses have to be transferred to some other currency chest. For instance, Gorakhpur, from which there are many heavy payments, both of the ordinary and special kind, is a surplus treasury solely because all the earnings of the Bengal and North-Western Railway are credited there. The inevitable result is that sooner or later the surplus cash which accumulates in the Gorakhpur currency chest must be transferred to the chests of deficit treasuries,—a process which could have been avoided or greatly reduced had a part of the earnings of the railway been credited into those deficit treasuries. It should not be impossible to induce the railways so to rearrange their system of crediting earnings as to avoid unnecessary movements of currency. Some experienced witnesses would go further and suggest that railways should pass on their collections to bankers, clearing houses and recognised banks, wherever money happens to be wanted, against corresponding credits at their headquarters. There would no doubt be times when such an arrangement would be a considerable benefit to the institutions which received these collections. On the other hand, as at present railway earnings are treated as if they were government receipts and are consequently remitted wherever they are required free of charge, it will be necessary for the recipient banks to agree to give to railways corresponding credit at the latter's headquarters free of charge; or, in other words, to effect the remittance through its headquarters branch without demanding the usual commission. Since *prima facie*, it is they who would benefit, this should cause no insuperable difficulty.

528. *The gold saving certificate*.—The Royal Currency Commission of 1926 recommended the issue of gold saving certificates, which should be sold for legal tender money and be redeemable after three or five years either in legal tender money or in gold at the option of the holder. Their object was to "bring it home to the masses that gold is the standard of value of the rupee and that the one is convertible into the other." They also urged that such certificates would constitute a powerful incentive to investment and a powerful antidote to hoarding. "As soon as it has been established by experience as a certainty," they

wrote, "that gold is always forthcoming for the certificates on maturity, it is to be expected that there will be a gradual replacement of hoards by certificates." Since, as already explained, there seems reason to believe that the hoards of gold have increased in recent years, we recommend that the Commission's scheme should be put into operation, with this modification that the certificate should be sold either for legal tender money or for gold at the option of the purchaser. The certificate should be issued in denominations of one or more tolas of gold. The purchase price in legal tender money should vary according to the ruling price of gold up to a maximum corresponding to the lower gold point, at which the gold would leave the country, namely Rs. 21-11-9 per tola. As regards redemption, Government is not bound to pay, nor can the depositor claim to be paid, at a higher rate than Rs. 21-3-6⁽²⁾ per tola. But if the market price is higher than this, then the result will simply be that a depositor would demand repayment in gold, and subsequently make a profit by selling the gold in the open market. In practice, therefore, we consider that the redemption price should vary between Rs. 21-3-6 and Rs. 21-11-9 according to circumstances.

529. *Extension of joint-stock banking.*—We have pointed out that the banking facilities already available are very unequally distributed over the province. There are big centres such as Cawnpore, Lucknow, Agra and Allahabad, which possess a number of banks. There are numerous towns and indeed whole districts which possess none at all. We also have knowledge of cases where a bank, after having established itself in some relatively small market and having secured such business as was available, has found itself faced with the competition of a second bank, which has deprived it of a part of that business, and occasionally even succeeded in ousting it altogether. We regard such occurrences as most unfortunate in present circumstances. The province at the present time requires not competition but diffusion of banking facilities. Only the biggest commercial centres require a number of banks. The smaller centres require one, or at most two. We realise that it is scarcely within the scope of our enquiry to make definite recommendations which would have the effect of restricting the present freedom of any bank to open a branch where it will; but we venture, nevertheless, to suggest, for the consideration of the Central Committee, that it would be greatly to the general advantage of the province if measures could be taken to regulate the opening of new branches or new banks at places which are already fully supplied with banking facilities.

530. It is generally supposed that the joint-stock bank when considering the establishment of a new branch is more often concerned

⁽²⁾ This is the rate fixed for the purchase of gold by Government under section 4 of the Indian Currency Act, 1927.

with the probable supply of local deposits than with the probable local demand for remittance and credit. Unfortunately, a considerable number of potential investors will always regard the matter from the opposite point of view. Nevertheless, there are, in our opinion, still many places in the province entirely unserved by banks where sufficient business is available to justify the opening of a new branch. And in this connexion we venture to suggest that, at all events in the market towns, the mere presence of a bank is likely to attract deposits. For there can be no doubt that in such towns the nature of banking operations is much better understood (or, what is possibly even more important, less misunderstood) than it was even a few years ago.

531. Nor is that all. There are many places in the province where, though there may not be sufficient business to justify the opening of a provincial branch, there is a large seasonal business well worthy of a bank's attention. As an instance, we may mention the trans-Rapti tracts of Basti district, in which, together with the neighbouring Nepal Tarai, the cultivation of the finer brands of rice is a speciality. The whole of this very large and valuable crop is annually exported, and money is required in considerable sums to finance both its production and its export. Obviously a temporary branch of a bank opened during the busy season at such a place as Uska Bazar or Naogaon would be of great advantage to the large firms that buy in this market.

532. Again, there are many even smaller places where there is considerable business on market days. In such cases banks might well find it profitable to open a periodical "counter," which would be staffed and financed from some neighbouring branch. In a word, though we wish to avoid any appearance of teaching the banks their business, we cannot help feeling that they are merely content to compete for the custom of a limited class, and are not fully aware of all the possibilities open to them; and we offer these suggestions as much for their consideration as for the information of the Central Committee.⁽²⁴⁾

533. *Banking legislation.*—We have seen that banking for its success depends primarily on public confidence. We have also seen that the association of Government with any credit institution, such as the Imperial Bank or the co-operative banks, tends to increase public confidence in those institutions. It follows, therefore, that one means,—at the present time possibly the best means,—of fostering the growth

⁽²⁴⁾ In this connexion we mention a point, which may seem small, yet is one to which some of our most experienced witnesses attach great importance. However temporary or periodical a branch of a bank may be, it should invariably have a permanent location marked by a permanent signboard. The somewhat unsophisticated client that is likely to deal with such minor branches is quite used to the idea of shops or other places of business that are only open at intervals, but he likes to feel certain that when these intervals come round, that shop or place of business will be open.

of the banking system and stimulating the banking habit is to bring Government into closer association with banks generally. For this purpose, we suggest the desirability of banking legislation, and especially the appointment of government bank examiners, men who are not merely auditors in the restricted sense of that term, but experienced practical bankers. We do not desire to disparage the auditor. His profession is honourable and his duties of high importance; but at the present stage, at all events, more is required than mere audit. There have been banks who through sheer ignorance have committed blunders which have involved themselves and their clients in ruin. There have been other banks who have exploited the respectability which the term 'bank' connotes for their own personal advantage, and to the detriment of the public. Again, as we have just seen, the expansion of banking is at a stage where its regulation is imperatively necessary; where some authority is required to prevent the opening of new banks or new branches at places already fully supplied with banking facilities, and to keep the banks supplied with information regarding the localities where business is available. For such purposes, an administrative rather than an audit agency is required. We restrict ourselves to these general observations. The details we leave to the Central Committee within whose sphere the question of banking legislation lies.

534. *Clearing house facilities.*—At the present moment, the clearing house business in India is conducted by the Imperial Bank, but only at eleven centres, of which one, Cawnpore, is in this province.⁽²⁵⁾ The business is carried on in the offices of the Imperial Bank at these centres. It is supervised by an officer of that bank; the expenses are borne by all the clearing banks in equal shares. A bank can become a member of the clearing house only by the consent of existing members. We feel that if the cheque system is to be popularized, it is necessary that these facilities should be largely extended. We consider that there should be local clearing houses in the large towns, wherever there are sufficient banks or bankers to supply them with work. There should also be a large provincial clearing house at Cawnpore which should act as a country clearing house. We see no objection to the rule which prevents a bank from becoming a member of the clearing house without the approval of existing members. The same rule, we believe, is in force in London, where there are many major banks which are not members of the clearing house. Such banks can always obtain the privilege of clearance by arranging with a member of the house to act as their clearing agent. But if the banking legislation which we have recommended be introduced, any bank or banker whose application for membership is recommended by the government bank examiner or other administrative officer

⁽²⁵⁾ The other ten are Ahmedabad, Bombay, Calcutta, Colombo, Delhi, Karachi, Lahore, Madras, Rangoon and Simla.

in charge of banking affairs, should be admitted as a member of the house in its own name. This, we understand, is the case in the United States of America. All clearances should be at par,

Some of our members suggest that the clearing house should deal not only with cheques as at present but with bills, *hundis* and other instruments of remittance; that it should, in fact, be a collecting house as well as a clearing house. Distances in India are great, and few banks have branches at all important centres; and a collecting agency would, no doubt, be a great convenience, whilst in present conditions the clearing of cheques by itself is not likely to provide any clearing house with sufficient business. We commend the suggestion to the notice of the Central Committee.

535. *The Reserve Bank.*—We do not propose to make any addition to the considerable mass of literature which already exists on this subject, which indeed belongs rather to the Central Committee's sphere than to ours. We need merely say that in agreement with a majority of our witnesses who have mentioned the subject, we consider the institution of a reserve or central bank essential to a well-organised banking system. It is necessary, however, to point out that the institution of such a bank would entail the modification of certain of the proposals which we have made in previous paragraphs.

Firstly, the provision of clearing house facilities would naturally become one of the principal functions of the reserve bank, and their location or number would then depend on the reserve bank's convenience.

Secondly, our proposals regarding supply bills and currency telegraphic transfers would fall to the ground; for the reserve bank must necessarily take over the control of all currency chests, managing them either directly through its branches or through such other banks as may be appointed its agents in places where a branch does not exist. Government remittance would then become a mere part of the general problem of internal remittance, with which the reserve bank must necessarily deal; and such devices as the supply bill and currency transfer would cease to exist.

Thirdly, since every currency chest must come under the control of the reserve bank, and since that bank, in places where no branch of its own exists, must necessarily exercise that control through some agent bank, it seems to follow that as a corollary to the institution of a reserve bank, a branch of some approved bank or banker must come into existence in every place where there is a currency chest. The branch may be small, but, as we understand the situation, a branch must be there. The institution of the reserve bank, therefore, will necessarily lead to that diffusion of banking throughout the province for which we have pleaded.

APPENDIX.

Analysis of the figures showing the movement of currency during the period April 1, 1924 to January 31, 1930.

1. A table is printed at the end of this note which shows the absorption or return through currency of notes and coin in every currency chest in the province, for the seventy months beginning April 1, 1924, and ending January 31, 1930. They were compiled under the direction of the Currency Officer at Cawnpore at our request. The calculation in each case consisted of (1) adding to the opening balance in a chest remittances (of coin or notes as the case might be) received from outside the district, and (2) deducting from this total the closing balance of the chest at the end of the period, *plus* remittances sent outside the district. If the result was a *plus* figure, then "absorption" had occurred, i.e., of currency by the public. If it was a *minus* figure then there had been a "return", i.e., of currency from circulation to the currency chest. The calculation in the case of notes, however, is to some extent complicated by the cancellation of notes which have become unfit for circulation. Such notes are allowed to accumulate and remitted to the currency office from time to time. It is impossible, therefore, to say that the cancellations of one year relate to the notes returned in that year. But taken over a long period, the total cancellations indicate roughly the extent to which total absorption amounts merely to replacement of old notes by new.

2. The table gives the figures separately (1) for the six periods June to August; and (2) for the rest of the period. During these months accumulations at the chests are abnormally high as the result of the revenue collections which have occurred in the months of May to July.

3. The following are some of the principal causes which affect movements of currency :—

(1) *Railway receipts*.—Enquiry from the accounts office show that railway earnings are for the most part paid at the following treasuries :—Cawnpore,⁽¹⁾ Bareilly, Naini Tal, Sitapur, Benares, Allahabad, Gorakhpur, Lucknow, Etawah, Dehra Dun, Meerut, Moradabad, Jhansi, Jalaun, Banda, Agra and Saharanpur. Railway earnings appear to have the following effects on the figures :—

(a) In all the places mentioned there is a large return of notes, the major part of which are subsequently cancelled. For

⁽¹⁾ Cawnpore, however, does not appear in these returns. The reason is that the currency office is situated at that place, with the result that its transactions correspond to the transactions of the rest of the province, but in the reverse direction.

instance, at Gorakhpur, which treasury receives the earnings of the Bengal and North-Western Railway, the total return of notes during the period was 836½ lakhs of which 701½ were cancelled. Out of a total figure of 3110½ lakhs of notes cancelled in the whole province during this period, 2270½ or 73 per cent. were cancelled at the sixteen treasuries mentioned.

- (b) *Railway earnings* also mean a return of coin in most of the treasuries mentioned; but the return of coin is usually much less striking than the return of notes. The reason is said to be that a portion of the railway's takings in silver are retained to pay their numerous menial staff. Nevertheless, the total amount of coin returned at the sixteen treasuries mentioned above amounts to 1094½ lakhs out of a total return of 1361½ lakhs or over 80 per cent.

(2) *Military payments*.—Military payments mean the absorption of considerable quantities of money without any return to counterbalance it. The absorption may be either of notes or coin, but judging from the figures it is principally the former. They are heavy in fourteen treasuries, namely, Naini Tal, Ranikhet, Dehra Dun, Roorkee, Bareilly, Meerut, Muttra, Agra, Allahabad, Lucknow, Sitapur, Jhansi, Benares and Fyzabad.

(3) *Post office operations*.—The ordinary postal operations, i.e., those connected with the despatch of letters and parcels mean everywhere a return of money. This result, however, is largely modified by the figures of other postal operations, i.e., those connected with savings banks, cash certificates and money orders. Where (1) the deposits in a savings bank exceed the withdrawals; where (2) the issues of cash certificates exceed the discharges; and where (3) the issues of money orders exceed the payments,—then there is a return to currency. In practice, deposits of savings banks usually exceed withdrawals and issues of cash certificates usually exceed discharges; but the differences in both cases are always small. On the other hand, payments of money orders very frequently exceed issues and the difference in this case is often decidedly large. The district figures vary enormously: in Jhansi the average annual return is about 19 lakhs, in Benares the average annual absorption is about 30 lakhs. Only fifteen districts, however, show a net return on postal operations of this nature, namely, Bahraich, Jhansi, Hardoi, Kheri, Sitapur, Muzaffarnagar, Saharanpur, Budaun, Shahjahanpur, Pilibhit, Etah, Mainpuri, Etawah, Almora and Naini Tal.

(4) *Agricultural trade*.—Whenever there is a collecting centre for agricultural produce, a certain absorption occurs as currency passes

out first into those centres, and thence into the villages. Again, where there are distributing centres of agricultural produce further absorption occurs. The *arkhatia* who despatches his produce from Hapur to Bombay will ultimately receive his money in Hapur, and thereby tap the currency chest at Meerut. Absorption on these accounts must be felt in almost every district in the province, but is likely to be specially heavy in the west, which contains many large collecting and distributing centres.

(5) *Agricultural calamities*.—In an unfavourable year the normal return to currency is reduced by remissions of revenue, whilst absorption is increased by large outgoings of money required for agricultural loans. As it happens, however, there was only one year in the entire period to which these figures relate, which could be regarded as in every way normal. In 1924-25 there were disastrous floods, the results of which persisted into 1925-26, whilst from the second half of 1928 to the end of the period one crop failed after another. These calamities, however, were very unevenly distributed over the province, and it accordingly becomes a matter of great difficulty to evaluate their effect on movements of currency. Figures, however, have been worked out which show for the whole province—

(1) the results of the normal year 1926-27,

(2) the average annual results based on the figures of the rest of the period.

We thus get a comparison between a normal and an abnormal year, the results of which are as follows. (A *plus* sign means absorption, a *minus* sign return; figures are in lakhs.)

				1923-27.	Annual average; rest of period.
Coin—					
June to August	..	..	..	—387	—312
Rest of period	..	..	..	+14	+117
Total period	..	..	..	—375	—195
Notes—					
June to August	..	..	..	+258	+244
Rest of period	..	..	..	+748	+639
Total period	..	..	..	+1,006	+883
Notes cancelled	..	..	..	—800	—751
Notes net	..	..	..	+406	+331

These figures show that whilst in a normal year the absorption of notes is larger than the absorption in an abnormal year by about 18 per cent., yet the return of coin in the former is larger than in the latter by 48 per cent. The reasons for this disparity are apparent from the figures for the two parts of the year. In a good year revenue collections, which are mostly paid in silver, are much larger than in a bad year, with the result that the return during the period July to August is much larger in the

former than in the latter. On the other hand, in a bad year Government is compelled to make large advances to agriculturists, usually in October to December, with the result that the absorption during the second part of the year is much heavier in a bad year than in a good.

(6) *Canal construction*.—Throughout the period which we are considering the construction of the Sarda canals has been in progress resulting in very heavy payments at certain treasuries. These payments have taken place mainly at Bareilly, Lucknow, Pilibhit and Shahjahanpur. To a large extent the consequent absorption would be of coin required to pay the wages of labour; and in fact there has been large absorption at all the four treasuries mentioned, except Lucknow, where there are numerous other causes to counteract it.

(7) *Pension payments*.—Pension payments naturally occur at all treasuries. There are, however, some where they are particularly high, for the following reasons :—

- (a) Many districts contain a large number of military pensioners. The most notable are the western districts such as Meerut, Bulandshahr and Aligarh, which are recruiting districts for Jats, and some of the Oudh districts, which are recruiting districts for Rajputs, and the hill districts for Garhwalis and Kumaunis.
- (b) The province contains a large number of holy places, such as Benares, Hardwar, Ajodhia and Prayag (Allahabad), where Hindu pensioners from all over northern India settle down. In these places also the pension payments are particularly large.
- (c) In the hill districts, notably Dehra Dun, there are a number of European and Anglo-Indian pensioners.
- (d) Gorakhpur is a large centre for the payment of Gurkha pensioners, who come there once a year to receive their money.

Pension payments, of course, mean absorption, for the most part, probably, of notes.

(8) *Foreign trade*.—There is a considerable trade with Nepal and Tibet, the balance of which in both cases appears to be against British India, with the result that a good deal of British currency passes over the border. In the case of Tibet the absorption is probably of coin. In Nepal, however, it is largely of currency notes, where they pass at a premium, and indeed are accepted in preference to Nepalese coin.⁽²⁾

(2) One hundred British rupees are equal to one hundred and twenty-five Nepalese rupees, but British notes worth one hundred rupees will generally fetch one hundred and twenty-eight Nepalese rupees. Only the currency notes of Cawnpore and Calcutta are accepted in Nepal.

Figures showing absorption or return (—) of notes and coin through currency from April 1, 1924 to January 31, 1930.

Currency chest.	Coin.			Notes.				
	June— August.	Rest of period.	Total period.	June— August.	Rest of period.	Whole period.	Notes cancel- led.	Net notes
Naini Tal ..	1½	60	71½	87½	207½	295½	27½	268
Ranikhet ..	7	11½	18½	89½	15½	135½	4½	130½
Dehra Dun ..	17½	40	57½	107½	28½	394	62½	331½
Sahasraipur ..	—58½	42½	—16½	—8	12	89	125½	—34½
Rurki ..	—11½	—6	—17½	22½	82½	105½	1½	103½
Bareilly ..	—85	78½	—6½	13½	149½	163	149	14
Bijnor ..	—8½	—2½	—11	53½	60	113½	80½	74
Pilibhit ..	½	21	21½	4	2	6	6	..
Kheri ..	—34½	—28½	—63½	21½	—7½	14½	8½	6½
Budaun ..	—51½	—29	—80½	23	42	65	½	—182½
Muzaffarnagar ..	—61	115	54	21½	—5½	15½	148½	188
Meerut ..	—108½	89½	—19	69½	308½	378	188	—17½
Bulandshahr ..	—72½	69½	—3½	—1	8½	2½	20½	129½
Aligarh ..	—32½	92½	60	51½	90½	142½	18	6½
Hathras ..	—74½	167½	93	—9½	74½	65½	59½	146½
Muttra ..	—34½	88	8½	67½	174½	289½	98½	—1
Mainpuri ..	—32½	—32½	—66	½	—1	—	181½	270½
Agra ..	—70	9½	—60½	88½	318½	40½	181½	—2½
Etah ..	—30	—27½	—57½	—1	—8½	—9½	..	87½
Farrukhabad ..	—41½	—13½	—55½	18½	53	66½	2½	—50½
Etawah ..	—22½	12½	—9½	6½	—16½	45½	96	—112½
Moradabad ..	—119½	104½	—15	42½	159	201½	314½	15½
Shahjahanpur ..	—19½	65½	46½	21½	—4½	11	1½	62
Rae Bareilly ..	8½	7½	16	16	47	63	1	—12½
Fatehpur ..	—11½	—4½	—20½	—3½	—2½	—5½	74	—30½
Allahabad ..	—105	—185	—290	78	270½	373½	303½	280½
Lucknow ..	—125½	—69½	—195	152½	888½	490½	210½	9½
Unao ..	—1	2½	1½	3	8½	11½	1½	33½
Sitapur ..	—53½	19½	—34	21	18	84	½	51½
Hardoi ..	—32½	—17½	—50	13	8½	51½	½	107½
Fyzabad ..	—28½	42½	10½	23	102½	125½	16½	9½
Sultanpur ..	..	28½	28½	28	73½	101½	2	38½
Partabgarh ..	½	10½	11	12½	26	38½	½	60½
Bara Banki ..	—17½	—30½	—47½	26	84½	60½	4½	429
Jhansi ..	—36½	64½	27½	122½	311½	433½	84½	—2½
Jalaun ..	—25½	—5	—30½	10½	—1½	9½	..	10½
Hamirpur ..	—11½	—12	—23½	2	8½	10½	34½	—5½
Randa ..	—85½	—6	—41½	27	2	29	5½	103½
Mirzapur ..	—12½	—2	—14½	16	94	109	701½	—886½
Gorakhpur ..	—337	—230½	—567½	24	—159	—135	74	59
Basti ..	—5½	—64½	—121½	82½	34	6½	8	22
Gonda ..	—18½	½	—18½	17	8	—5½	5½	—2
Bahraich ..	—34½	6½	—28½	22½	—25½	—3½	165	50½
Benares ..	—64½	—59½	—124	—8½	242	233½	4	70
Jaunpur ..	—14	18½	17	13½	60½	50	½	56½
Ghazipur ..	—3½	9½	6	8	51	59	1½	72½
Ballia ..	—6	4½	—1½	12½	62½	75	10	106½
Azamgarh ..	—4½	20½	16	20½	96	116½	..	..
Total, United Provinces.	—1,948½	567½	—1,381½	1,481½	3,800½	5,291	2,110½	2,180½

PART VI.

CHAPTER XIII.

MISCELLANEOUS.

I.—Trade in the Hills and on the frontier.

536. There is a considerable amount of trade between Tibet and Nepal and certain districts of this province which lie on the frontier of these countries. These districts are :—

Almora and Garhwal, for trade with Tibet;

Almora, Naini Tal, Bahraich, Basti and Gorakhpur, for trade with Nepal.

(1) *Tibetan trade—(a) Marketing.*

537. *Importance of the trade with Tibet.*—The importance of the trade with Tibet can be gauged from the following extract from a letter from Mr. J. Adams, the Secretary to Government, Fort William, to Colonel D. Ochterlony, Political Agent at Ludhiana, dated September 30, 1814, instructing that officer to promise general restitution to the chiefs west of the Jumna who had been dispossessed by the Gurkhas in the event of the success of British arms in the Nepal War (1814-15). "The eventual exception from the general restitution chiefly referred to in the 18th paragraph although not coming within the immediate sphere of your duties is yet so connected with them as to make it expedient to advert to it in this place. His Lordship is not sure whether it may not be expedient for the British Government to appropriate to itself Srinagar including the valley of the Deerah Doon, and the territory dependent on it, not so much with a view to revenue as for the security of commercial communications with the country where shawl wool is produced. The object would require the possession by the British Government of a tract of territory quite close to the frontier of that country. His Lordship is not apprised of the local objections which exist to the appropriation of such a territory; of the practicability of defending it, or of its aptitude to promote the object of trade, which has just been stated, nor whether to render it complete it may not require the addition of a portion of the contiguous territory of Keemaon The question will in the meantime remain open for decision and will not be affected by your proceedings relative to the territories west of the Jumna" (1)

(1) *Punjab Government Records, Volume II, Ludhiana Agency, 1800-41, page 415.*

538. *The periodical fairs.*—That world-wide institution, the "fair," has been defined as "a periodical gathering for sale of goods, often with shows and entertainments, at a place and time fixed by charter, statute or custom." Many fairs are held in the province and serve a useful purpose everywhere. But if they are valuable in the plains, they are indispensable in the Himalayas. Hill roads are few and often impassable during the winter months because they are covered with snow, during the rains because the torrents that intersect them become unfordable. A free exchange of goods is then impossible, and the annual fair is often the only opportunity when traders and customers can meet. Such fairs in the hills are usually connected with religion: most of them are held in the winter when the hill folk are comparatively free from field work.

539. The following brief account of certain fairs held in the Almora district will serve to show their importance.

- (1) Bageshwar is a place 27 miles north of Almora and 14 miles from the motor road. The fair is held at the confluence of the rivers Gunti and Sarju on the Makarsankrant day, which falls in January. It begins one day previous to the *Sankranti* and lasts for four or five days. It is less an agricultural than a commercial fair. Here traders from Almora and Naini Tal meet the Bhotiya traders, especially those of the Johar valley: the average attendance exceeds 10,000. The merchandise of the latter consists chiefly of Bhotiya and Tibetan goods—Bhotiya ponies, goats, and sheep; yak-tails, skins, hides and furs; raw wool and woollen goods; e.g., *chutkas*, *thulmas* and shawls; Tibetan curiosities, and various medicinal articles such as musk. The Almora and Bageshwar traders and artisans sell cotton and woollen cloth, iron, brass and copper utensils and implements, *gur*, oil, salt and other similar commodities. The neighbouring villagers bring provisions and fruits,—milk, curds, oranges, plantains, sugarcane, walnuts, and such articles as *ringal* mats, baskets of various shapes and sizes and forest produce. The transactions amount in value to some 3 or 4 lakhs of rupees.
- (2) Jouljibi is situated on the Nepalese frontier and at the confluence of the rivers Gori and Kali. The fair takes place on the first day of *Margshirah* (mid-November), and lasts for nearly a week. It is a commercial fair attended by Tibetans, Bhotiyas and Nepalese. Its importance is fast increasing on account of the fact that it is the first mart

visited by the Bhotiyas on their return from Tibet. The merchandise is chiefly Tibetan and Nepalese, and includes ponies and woollen goods.

- (3) Thal is on the eastern bank of the Ramganga. The fair is held in the middle of April and lasts for nearly a fortnight. Here the Bhotiyas complete their accounts with the hill traders and make their preparations for their journey into Tibet. The fair is a sort of clearance sale of the goods which the Bhotiyas have been unable to dispose of in the Bhabar; and the goods are naturally both inferior and cheap. The final purchases for the Tibetan marts are also made here. The average attendance is about 12,000.

The fairs at Jouljibi, Bageshwar and Thal supply the requirements of the Bhotiyas and of the people of the central and northern *pattis*. There are other fairs which serve the inhabitants of the lower hills, but these latter have lost much of their former importance, as a result of the development of communications and marketing facilities.

540. *Trade*.—The trade is the monopoly of the Bhotiyas. These people are the carriers of the entire Indo-Tibetan trade, both export and import : and they are also manufacturers. They owe this monopoly partly to their knowledge of the Himalayan passes, which no outsider would attempt to cross, partly to their friendship with the Tibetans : for the latter will not enter into commercial relations with anybody who will not eat with them.

The Bhotiyas are trading in Tibet during the hot months, and in Kumaun during the winter. They are divided into five groups, live in five different valleys and enter Tibet by five different passes. Three of these, viz., Johar, Darma and Byans, are in the Almora district, Niti and Mana are in the Garhwal district. Each group of Bhotiyas has its different market in Tibet : for instance, the market for Johar is Gynema, that for Darma and Byans is Taklakote, that for Niti is Daba, and that for Mana is Tholing Math. Each Bhotiya has his own *mitra* (broker) in Tibet. There is an initiation ceremony known as "*sulji mulji*" in the course of which the Bhotiya presents a turban to his *mitra*. After this ceremony the Bhotiya must bring to his *mitra* whatever British Indian commodities he requires, whilst the *mitra* in return must provide the Bhotiya with all the Tibetan commodities which the latter requires. Each Bhotiya is extremely jealous of his *mitra*, and would strongly resent an attempt by any other Bhotiya to deal with him. In case of any

breach of his agreement the offending Bhotiya is liable to punishment; sometimes the agreement is written and includes a penal clause. These *mitras* are bought and sold like other commodities, but in any such bargain the consent of the original *mitra* is necessary.^(*)

541. The passes into Tibet are opened by Tibetan officers who come to the British territory to inquire whether there is any epidemic in the Bhotiya villages and to collect a grazing tax. The Bhotiyas have also to pay a tax on entrance. The following taxes are levied from the Bhotiya traders entering Tibet :—

- (1) La Thal.
- (2) Poll tax on men, women and children.
- (3) Sa Thal.
- (4) Loog Thal.
- (5) Chung Thal.

The multiplicity of these taxes is due to the administrative system of Tibet where minor posts are sold to the highest bidders. Sometimes the Bhotiyas are actually robbed, and their articles taken from them by petty officials by physical force at nominal prices.

542. *Exports*.—The principal items of export to Tibet are food-grains, for Tibet is a bleak and barren country largely dependent upon India for her food. The chief grains exported are rice, *mandua*, wheat, barley and *jhungara*. Other exports are sugar, *gur*, tea, tobacco, copper, iron and aluminium utensils, cotton piece-goods, matches, porcelain wares and silver.

543. *Imports*.—The chief imports are borax, wool (both raw and manufactured), yak-tails, furs, hides and skins, ponies, mules, sheep and goats. The trade in salt and borax is fast diminishing owing to the advent of cheap Sambhar salt and cheap European borax. This loss is being compensated by the rapid expansion of trade in wool. In 1840 only 22 maunds of wool were imported. In 1922-23 the imports rose to 13,216 maunds of wool.

544. The final preparations for the Bhotiya trade in Tibet begin by the end of May when the snow has melted and the passes can be crossed. During April and May, i.e., after the Thal fair, the exports for Tibet are carried from the entrepôts to the midland and highland Bhotiya villages. In June the entry into Tibet begins. Goods are carried on goats, sheep, mules and *jibbus*. Throughout July and early August people and sheep are continuously coming and going. The bleak and Tibetan marts become populous tent cities. Men, animals,

(*) See Evidence, Vol. III, p. 166.

piles of wool, bags of salt and borax, packages of cotton cloth, tea and grain occupy all the available space. Only the richer traders carry money; the poorer Bhotiyas are content to barter commodities. The British Indian silver coin is usually at a premium, but the Tibetan officials insist on payment in *tankas* and fix unfavourable rates of exchange. The Bhotiyas buy a stock of Tibetan *tankas* at Kalimpong, Shillong and Calcutta. When trade is carried on by barter the Bhotiyas are usually cheated, and a number of their animals return without a load.

545. Between June and October all adult Bhotiyas are busy in the marts of western Tibet, whilst their womenfolk remain at home working their looms and looking after the household. There are base *dépôts* both in the high hills and in the valleys. The Tibetan goods which have been bought are first stored in the higher *dépôts* and as winter advances are carried down to the lower *dépôts*. During the Tibetan season the Bhotiyas usually make two or three journeys to the lower *dépôts* from the higher hills. Some of the goods on their way down, especially salt and wool, are sold in villages on either side of the route. Thence they are taken to the two fairs at Jouljibi and Rageshwar, and what remains goes to the Bhabar markets, Haldwani, Raunagar, Tanakpur and Kotdwara. The greater part of the raw wool, however, is sold to agents of woollen mills at railhead. Two or three journeys to the Bhabar are usually necessary before all the goods in the *dépôts* can be sold. As already mentioned, the final clearance sale takes place at Thal. It may be mentioned that the Almora Bhotiyas carry on a certain amount of trade with Nepal between November and June.

(b) *Finance.*

546. The Bhotiyas inhabiting the valley of Johar are well-to-do. They operate with their own capital, and also receive accommodation from three shops at Calcutta and two *arhatias* at Delhi who deal in goods which find sale in Tibet. These *arhatias* and shops charge interest at 9 per cent. Certain dealers in cloth at Raninagar and Kashipur in Naini Tal district also supply the Bhotiyas with cloth, and charge interest at 12 per cent. The richer among the Joharis lend to their fellows and charge 9 to 12 per cent. from big, and up to 25 per cent. from small, traders for a period of 7 months, June to January (*Jeth to Uttraini*). Nevertheless, credit facilities among the Joharis are not adequate, for they depend upon the price of wool which they bring from Tibet, to which we shall refer shortly.

547. Unlike the Joharis, who deal mostly in costly goods like cloth, the inhabitants of Darma, Byans and Chaundas, Niti and Mana deal

mostly in cheap stuffs like grains and pulses. They depend for their credit needs on certain moneylenders of Dharchula, Lohaghat and Joshimath. Some of them are also financed by the Joharis. These moneylenders advance money to the Bhotiyas in June or July, and are paid back in February or March after the wool or borax brought by the Bhotiyas is sold. Interest is charged at rates varying from 12 to 30 per cent. for the period. They also act as agents in the principal emporium of Bhotiya trade, Tanakpur, and charge a commission from both the purchaser and the seller. As they lend money on little or no security they accompany the Bhotiya traders after their return from Tibet and move with them to Tanakpur during the winter season, returning to the hills when the Bhotiyas come back after selling their wool. As they act as middlemen in the sale of wool the moneylenders realise the sums advanced by them from the price paid by the purchaser and pay the Bhotiyas the balance received.

548. The Bhotiyas have thus to depend for the sale of wool which they bring from Tibet upon these moneylenders. The latter are more interested in the realisation of their advances than in the sale of the wool, and are ready to sell it at any price, whether it be adequate or not. It is also alleged that the rate of commission which they receive from the purchasers depends upon the cheapness of the price at which they can get the Bhotiyas to sell their wool. It is, therefore, not surprising that the price of wool has been going down for the last two years; it is said that this year the Bhotiyas were forced to sell their wool at Rs. 33-4-0 per maund, which was less than the price paid by them in Tibet, although these very moneylenders had made a contract with the Bhotiyas to purchase wool at the rate of Rs. 40. If these facts are true, the methods employed by the moneylenders are discreditable.

549. Another difficulty experienced by the Bhotiyas lies in the fluctuating rate of exchange of Tibetan coin called *tanka*. The Tibetans prefer the British rupee on account of the purity of its metal and its permanent value, but the Tibetan officials fix the value of the rupee in terms of *tankas* to their own advantage and demand that the Bhotiyas should make payment in *tankas* or British coin as suits them best. Many Johari traders purchase *tankas* at Kalimpong, Darjeeling, Gauhati or Calcutta at seven or eight *tankas* per rupee and sell them at five or six to their brethren before leaving for Tibet. The value of the *tankas* is so fluctuating that whereas it stood at three to four per rupee in 1924-25, it stands now at seven to eight per rupee. Further, there is no market where the Bhotiyas could sell surplus *tankas*.

550. The Bhotiyas, therefore, experience difficulties in three ways :—
(1) They have to pay a high rate of interest on their borrowings, (2)

they have insufficient marketing facilities for their wool, and (3) there is no agency for the exchange of British money into Tibetan coin or *vice versa*. The credit facilities also seem insufficient for their present requirements, but the problem of providing such facilities is difficult because they can offer practically no security, and further for more than four months after taking a loan they are absent from British India. But if the Bhotiyas could be organised under the co-operative system, they would have no difficulty in obtaining cheap and sufficient credit. In this case a number of primary societies could be established each covering a number of villages, which would be linked to the central banks. The general system would be the same as in agricultural societies and banks : but the central banks would also assist in the disposal of the merchandise of the Bhotiyas by keeping them in touch with the market for wool, greatly reducing the marketing difficulty. They would also purchase Tibetan coin and thus perform the functions of an exchange bank, the need for which is generally felt at present. We understand that about three years ago an attempt was made to open a co-operative bank for Johar and about Rs. 15,000 were subscribed as share capital. We recommend the establishment of a central bank in the Almora district and another in Garhwal district. An organisation on the lines suggested above with the improvement of communications should lead to a considerable expansion of the Indo-Tibetan trade.

551. It has been pointed out to us that there are certain difficulties in establishing societies of the kind suggested. The Bhotiyas are said to be in the clutches of the moneylenders through their headmen who are extremely influential among their people. The moneylenders will naturally oppose this scheme, and so will the leaders unless it be possible to convert them to co-operation. But the fact remains that the movement will require at the start that assistance of educated and unselfish leaders.

(2) *Nepalese trade.*

552. Nepalese trade is carried on in three ways :—

(1) The traders from British India visit the markets in the Nepal territory and purchase *ghee*, grain, spices, honey, *silajit*, etc., on cash payment and traders from Nepal visit the markets in British territory to sell their merchandise and purchase cloth, copper and brass utensils, kerosine oil, etc. All goods that are imported into or exported from Nepal are heavily taxed. Grain, however, is free from taxation.

(2) Some British Indian traders run shops dealing in goods of various kinds chiefly at Butwal and Katmandu which are the two important commercial centres of Nepal. These shops generally store cloth,

soap and fancy goods, etc. Chintz cloth from Tanda in Fyzabad district and soaps manufactured in Gorakhpur district sell freely. Other commodities are obtained from Calcutta or Cawnpore. These shopkeepers have to pay a tax of Rs. 8 per year called *gharduari*, and octroi duties, which vary in the case of different commodities; the average is Re. 1-8-0 per cent.

(3) Traders from British India take contracts of various kinds : for instance, for the collection of the hides of dead cattle, for the sale, or licensing the sale, of excisable articles, such as liquor, *charas*, *ganja*, *bhang*, bones, horns or honey, and for the levy of grazing charges on all cattle which go to the Nepal territory from British India. Such contracts cover one or more districts and last for three years. The contracts are auctioned in the district courts in Nepal. The contractors are chiefly residents of Gorakhpur. For the last two years Muhammadans have been debarred from bidding,—a great loss to the Muslim residents of Gorakhpur who have been carrying on the trade in hides for generations. The sale of cigarettes forms the subject of another contract, which is sold annually for a lakh of rupees. There are also contracts for extracting timber from the Nepalese forests.

553. British currency passes freely in Nepal; indeed, the demand for British Indian currency notes is so great that they go to a premium. Ordinarily 125 Nepalese coins are equal to 100 rupees, but a hundred-rupee note fetches 128 Nepalese coins. The Gurkha treasuries accept British rupees or currency notes in payment of dues from traders, contractors and *zamindars*, but only those of the Cawnpore and Calcutta circles.

554. The traders and contractors working in Nepal are British Indians and they obtain credit in the same way as the retail traders working in British India, viz., from the *arhatias* at Cawnpore and Calcutta. What they need most is not finance, but protection whilst bringing money to their homes after selling their goods, as robbery is frequent and they are not allowed to possess firearms. Another difficulty experienced by these traders is that they are not permitted to purchase land in the Nepal territory, not even for building a house, and as they have to give security for their contracts in cash or landed property they have no option but to lock up a part of their liquid resources in cash security.

(3) Timber trade.

555. The timber trade is important in the hills. The valleys are rich in *chir* and *deodar*, whilst the Tarai is full of *sal*, *shisham* and *khair* (catechu). *Chir* and *deodar* timber is found in the districts of Dehra Dun, Garhwal, Almora and Naini Tal, whilst *sal* and *shisham*

abound in the districts of Dehra Dun, Garhwal, Naini Tal, Kheri, Bahraich, Gonda, Basti and Gorakhpur.

556. *System of forest contracts.*—The trees in the Tarai forests are sold by auction, generally before the end of August. Ten per cent. of the price is realised on the spot as earnest money and the rest is paid in three instalments. Contractors who are not known to the Forest department or who are residents of Indian States have to pay 20 per cent. as earnest money. The contractors engage sawyers who are paid an advance; these men hail mostly from Gorakhpur, Delhi, Rohtak and Almora districts. The wages of Delhi sawyers are Rs. 50 to Rs. 55 per month according to outturn (4 c.ft. to 7 c.ft. a day); the hill sawyers receive Rs. 26 to Rs. 35 per month. The forests must be cleared by June; sawing must be finished in March. The coolies and cartmen engaged in carrying timber to the railhead are paid on delivery of goods at the destination.

557. The forest contractors' financial operations are as follows :—

- (1) Earnest money is paid out of their own capital.
- (2) Money for making advances to sawyers in October is sometimes, but not usually, borrowed.
- (3) Money for transporting rations to the forests is usually borrowed.
- (4) The first instalment in November is usually paid with borrowed money.

(5) Money is usually borrowed to pay for carting and labourers' wages at the beginning of the season (December to April) : later these charges are met from sale-proceeds.

(6) To pay the second instalment at the end of January, contractors generally borrow a part of the money required, or the whole of it if the market is slack.

(7) The third instalment is paid, and the accounts of the workmen are finally settled, out of sale-proceeds.

Money is badly required in March, but is repaid before the end of June.

The system in the hill forests is similar, except that the contract runs there for a longer period and money is employed for about eighteen months.

558. The rates of interest which these contractors pay are generally 18 to 48 per cent. per annum when money is borrowed in November and not repaid till the work is finished, and 24 to 48 per cent. for short-period loans, i.e., one month or under. Some of the richer contractors are financed by indigenous bankers and commercial banks at rates varying from 9 to 12 per cent. Money is advanced on the personal security of the borrower. The credit facilities available for these contracts are

inadequate. The reason is that the contractors require large sums and have little security to offer. They hold large stocks of timber, but must sell before they can repay their debts. Licensed warehouses at suitable railheads would possibly solve the difficulty since the warehouse warrant could be used as security: but the timber must necessarily be first insured.

II.—Provincial Board of Economic Enquiry.

559. *Rural reconstruction, the problem of the future.*—Our study of the economic conditions of the province has convinced us of the pressing need for improving the lot of the peasant. Lord Meston once said that the province had large arrears of administrative progress to make up. Nowhere is this more true than in the rural areas. For the next decade at least, the most important administrative problem for Government's solution will be rural reconstruction; its most important financial problem will be the readjustment of its expenditure so as to secure it. Co-operation, agriculture, industries, primary education, rural sanitation, all alike will require a much larger share of the provincial revenues than they receive at present; and a share, moreover, which for many years will tend to increase.

560. *The need for economic data.*—But if Government is to embark on a policy of rural reconstruction, and in the process to avoid waste, then it will require more and better economic information than is at present available. Data of considerable value are to be found in such publications as settlement and rent-rate reports, and the annual reports of such departments as Agriculture, Co-operative societies and Irrigation. But these data are not complete, still less correlated or analysed. Again, there have been few surveys of the economic conditions either of countryside or town, and no detailed study of such problems as rural indebtedness or transfers of agricultural land. A few university graduates have, in the course of their studies produced valuable theses embodying the results of local inquiries in individual villages. But both the scope and the amount of the work which such students can do are limited. Extended so as to cover the entire province and multiplied a thousandfold, they might serve as the basis of a constructive policy. But to base such a policy on the material at present available will be to run the grave risk involved in generalizing from insufficient particulars.

561. *Facilities for collecting economic data and making economic enquiries.*—During the course of our present enquiries we have had to enlist the assistance of various departments to collect for us the facts and figures which we required. We were struck both by the quality of

the material thus supplied to us, and the rapidity with which it was collected. There is no doubt that had we not been working against time and had it been possible to allow us even another six months in which to prepare our report, we could have trebled or quadrupled our intensive surveys, and presented actual figures where we have had to content ourselves with estimates. We are convinced that with the existing staff it would be possible for Government to collect in a relatively short space of time all the economic data that it could possibly require; and once collected, it could, with equally little difficulty, keep its statistics up to date. What Government lacks is an organisation to see *firstly*, that these data are regularly collected, and that all requisite economic enquiries are made; and *secondly*, to collect and tabulate the data, and to present the results of the enquiries in convenient form. In short, it requires an organisation which will combine the duties of a statistical bureau and a department of economic enquiry. Such organisations are common in other countries. In this country, so far as we are aware, there is only one, namely, the Board of Economic Enquiry, in that progressive province,—the Punjab. The Punjab Board was formed in 1919. It has carried out a large number of village surveys and collected information on such varied subjects as the size and distribution of agricultural holdings, the rates of food consumed, mortgages of agricultural land, farm accounts and family budgets. It has provided a mass of useful data which serves a double purpose, of providing Government with the information which it requires to pursue a constructive economic policy, and of creating a well-informed public opinion on all economic matters. By enlisting the aid of all those who are interested in economic questions, whether officials or non-officials, university theorists or practical experts, the Punjab Board has acquired the authority and influence of an institute of economic research.

562. *Proposed Board for the United Provinces.*—We strongly urge that a similar board be constituted in this province. We have already described in outline what its functions ought to be. We need not repeat that description, still less need we fill it in in detail. We need merely add that its work must be of a practical rather than a theoretical nature, and that its main function should be to supply, or obtain for, any department whose ultimate duty is to develop the economic resources of the province, any data that it requires for the formulation of any particular scheme, and to offer to such departments its advice in all economic matters.

563. *Constitution of the board.*—We have so far spoken of a "board." But that board must be linked to, and form part of, a very

definite organisation. At the head of that organisation there should be a full-time(*) chairman, official or non-official, provided that he is a man who is both of standing and experience, familiar with the handling of statistics, and well-acquainted with the economic conditions of the province. The post should not be reserved for any particular service or department; the best man should be selected, whoever he may be. There should also be a secretary with similar qualifications. The secretary's post, like the chairman's, should be open to any department.

The office staff should consist of a few clerks including (since there will be much writing to be done) two stenographers; together with two statistical clerks. These clerks should be specially selected, since the statistician if he is to be successful must possess sufficient knowledge to enable him to understand the import of his figures. Both therefore should hold an M.A. degree in Economics, and should be paid accordingly.

564. *Membership of the board.*—The constitution of the board is a matter on which opinions differ. Some would prefer a board comprising representatives of every conceivable economic interest, whether that interest be official or non-official. But a board so constituted would be hopelessly unwieldy. In practice it would be wholly inactive, leaving all work to its office-bearers. It would in fact justify the caustic definition of a board, conference or committee as being "a noun of multitude signifying many but not signifying much." We propose that the board should be a small compact body which may, however, when desirable, increase its membership by co-option, of persons especially well-acquainted with the subject which is at the moment under discussion. We would restrict the membership to fourteen, excluding the chairman, as follows* :—

- (1) *Officials.*—The Directors of Industries and Agriculture; the Registrar of Co-operative Societies; either the Settlement Commissioner or an ex-Settlement Officer, and a representative of the Finance department.
- (2) One representative of each of the two Chambers of Commerce, namely the Upper India and the United Provinces Chambers.
- (3) Two representatives of the five universities.
- (4) Three non-official members to be elected by the Legislative Council.
- (5) A joint-stock banker and an indigenous banker.

(*) In the initial stages it might be convenient to make the post part-time, but we are convinced that it cannot remain part-time for very long.

*See also page 357.

The officers mentioned would be *ex officio* members. The term of non-official members should be three years. The representatives of the five universities would be elected in rotation from the economics and commerce departments by the relevant faculties; the bankers would be nominated by Government.

565. *Sub-committees.*—We propose that the board should work mainly by sub-committees. Whenever any particular line of investigation is suggested, or the report of such an investigation is to be considered, the work should be entrusted to a sub-committee consisting of the official member most concerned, at least one member of the Legislative Council, and at least one other member. In all cases those members should be selected that have special knowledge of the subject under discussion. The decision of this sub-committee should be final in all matters appertaining to that subject. The board itself should meet at least once a quarter to consider a report showing the work actually accomplished, to decide such questions as the printing of any material available, and to suggest further lines of enquiry. Both the board and the sub-committee should have the power of co-option mentioned above.

566. *Relations with Government.*—The relations between the Board of Economic Enquiry and Government should be the same as at present exist between the United Provinces State Medical Faculty and Government. They should receive a lump-sum grant-in-aid, covering all the board's expenditure with the exception of the pay of the officers and staff. This would, we understand, avoid the lapse of unspent balances in a particular year. The accounts of the board, however, should be subject to audit by government auditors.

567. If we are right in our view that for the next ten years at least the most important problem which Government must tackle is the problem of rural reconstruction, then we consider the creation of such a board imperative. Without it Government will be hampered at every turn in any economic policy that it may pursue. It would be in the position of an army which goes into the field without an arsenal behind it to provide it with ammunition. And the best time for its creation is now; for our evidence contains much material that we have not ourselves been able to use, and suggests many lines of research which we have not been able to pursue. That material will lose much of its importance with time.

Finally, the decennial census operations are about to commence. We have used the census figures freely, but we also found that much information was not available, which the census authorities could have supplied

without difficulty had they been asked to do so in time. It is as well not to let another census pass without securing that material; and a board of economic enquiry would, if constituted, be the proper authority to negotiate with the census department in such a matter.

CHAPTER XIV.

SUMMARY OF RECOMMENDATIONS.

(References are to paragraphs.)

OUR conclusions and recommendations may be summarized as follows :—

Chapter V.—Agricultural marketing.

1. The co-operative societies should be employed for the purpose of marketing finance and thus the cultivator's power of holding up stocks should be strengthened (259).
2. Merchants should introduce trade *muddati hundis* instead of the present book credits (259).
3. The practice of supporting *darshani hundis* with railway receipts should be extended (259).
4. Such defects as the following can only be cured by legislation or administrative regulation :—
 - (a) The use of a variety of local weights or measures;
 - (b) false weighment;
 - (c) the levy of a variety of incidental charges and imposts;
 - (d) the absence of grading;
 - (e) the secret settlement of prices (262).
5. Government should initiate an enquiry with a view to introducing standard weights and measures (264).
6. After necessary enquiry legislation should be undertaken to establish regulated general markets as recommended by the Royal Agricultural Commission (267).
7. By far the most important suggestion is the introduction of co-operative marketing societies (268).
8. The expansion and improvement of farming imply improved storage facilities, but grain elevators or licensed warehouses will not be required for some years to come (269).
9. When warehouses are established, the late Mr. Madan's draft Bill (Appendix to Chapter V) may be taken as the general basis, but the warehouseman should not be permitted to deal in or lend money on goods of the kind that are deposited in his charge and the grading officer must be entirely independent (270-271).

10. For various reasons it is neither possible nor desirable for Government to manage the proposed warehouses. They should be managed through private enterprise (272-273).

11. In the circumstances the *beopari* is and will continue to be an indispensable feature in rural economy, but the sooner he can be done away with the better for the producer (275).

Chapter VI.—The present situation in respect of co-operation.

12. Facile credit without adequate training of the people in its use is dangerous. What is needed is not a large number of societies scattered all over the province, but concentrated effort in one or two selected areas (289).

13. The new class of supervisors under the provincial supervising union should make for the better education of the members and the better supervision of the societies (290).

14. Since co-operation for its success must have the right spirit and atmosphere, ordinarily societies for rural reconstruction and better living should precede credit societies or at least the two should be started side by side (291).

15. Detailed enquiries should be made forthwith in different localities to ascertain the credit needs for productive purposes of different classes of cultivators, the time of such needs and how they are met at present (292-293).

16. Co-operative societies should only provide short-term and intermediate loans for productive purposes; they should not ordinarily give long-term loans or loans for unproductive purposes. Long-term loans may be obtained from the land mortgage banks referred to later (294-295).

17. No reduction in the present rates of interest charged by co-operative societies is possible. The suggestion to give a portion of the reserve fund to members who leave the movement is equally out of the question (296).

18. The societies should ordinarily consist of persons of equal status, and keep out undesirables. In cases of default immediate and drastic action should be taken. To make this possible the co-operative staff should be empowered to apply for an award (as in the Punjab) and a society's claim, as recommended by the MacLagan Committee, should be converted to a first charge, but only when a society provides full credit facilities including the liquidation of a member's outside debts. Further, in respect of advances for the purchase of cattle, etc., such societies

should have a first charge not only against the cattle purchased, but against the agricultural produce as well. The transfer of holding to a sub-lessee should also be impossible without the consent of the society. Attachment of property before the award is actually obtained should also be permitted so as to prevent dishonest transfers, as soon as arbitration is applied for (297-298).

19. Efforts should be made to encourage conscious savings in years of plenty for use in times of scarcity (299-300).

20. When crops are bad postponement should be given as soon as possible and not delayed till the demands have fallen due (301).

21. To ensure that loans be made promptly, the existing procedure in connexion with the advance of loans to societies by central banks should be simplified. But the difficulty of distance is a serious one. The post offices can facilitate the remittance of funds by foregoing the whole of the money-order fees instead of only three-fourths as at present and by permitting the opening of current accounts and their free transfer from a head post office to any of its branches. But the best solution would be the formation of moneylenders' co-operative societies, lending to primary societies in the neighbourhood and not to individuals (302, also 475).

22. The co-operators should carefully study the village money-lender and his methods and utilise his knowledge and experience to the best advantage (303, also 474).

23. As an experimental measure, societies for the purchase of agricultural requisites and the sale of agricultural produce should be started in one or two selected areas and aim at the inclusion of the village *bania*. After individual societies have acquired sound business methods they can combine into a central organisation and arrange for group marketing through a local expert (304).

24. At the same time co-operative societies of small traders should be formed (305).

It would be desirable to form a marketing department which should study all marketing problems, organise trading societies and assist in the establishment of open and regulated markets, particularly for the sale of principal crops (306).

25. In order to enable co-operative banks to get into closer touch with the money market a provincial co-operative bank should be established (306).

26. The law relating to audit should be suitably amended so as to empower the auditors to correct balance-sheets and permit their public-

ation only when they are certified to be correct; to enforce other audit suggestions and provide for the appointment of a committee of enquiry in serious cases; to hold the bank managers and directors personally liable for any losses caused through their neglect or imprudence; to include sections 50-A and 60 of the Bombay Act, which deal with wilful neglect and the wilful furnishing of false information by a society, officer or members; to require the employment by banks of staff licensed by the provincial bank (309).

27. The provincial bank must have the services of a banking expert as its general manager who should give advice both to banks and the department on all technical financial matters (310).

28. To encourage thrift special societies must be formed and the co-operative banks should give them special terms and facilities. The latter should encourage saving directly by offering attractive terms for fixed deposits and additions to them, however small (313).

29. Co-operative banks should maintain small cash balances and invest their surplus money. Reserve funds should not be pledged save in exceptional circumstances to meet a special emergency and for a limited period. Provision should be made for bad debts and the balance-sheets should reveal the real condition to the public (314).

30. All the income of a co-operative society should be exempt from income-tax (315).

31. Other concessions suggested are the following, of which the last is most important :—

- (1) the debentures of provincial banks should be included in the list of trustee securities;
- (2) the Court of Wards and District and Municipal Boards should be permitted to deposit their money in co-operative banks;
- (3) the co-operative societies should be exempted from court-fees as they are from stamp duties;
- (4) the present restrictions against the advancing of *taqavi* to co-operative societies should be removed and *taqavi* should be given to or through them whenever practicable (316-317).

Chapter VII.—The present legal situation in respect of debt.

32. There is no case for an extension of the Bundelkhand Land Alienation Act to the whole or any other part of the province. A further and fuller enquiry is required to obtain complete information (320, also 243).

33. Equitable mortgage by deposit of title-deeds should be made legal in the province, as it is in presidency and port towns and also in

the Punjab. Further, a mortgagee should be empowered to transfer his interest in the mortgage to his creditor by a mere deposit of the title-deed.

Every usufructuary mortgage should, as recommended by the Royal Commission on Agriculture, bear on its face the date of its final redemption (321).

34. The existing provisions of the insolvency law, if carefully administered, are sufficient to deter a debtor from misusing it. Special insolvency judges may be appointed where insolvency petitions are numerous (322).

35. The principal defect of the Usurious Loans Act is the absence of any definition of usury (323).

36. The Civil Procedure Code should be so amended that courts no longer have discretion to reduce the stipulated rate of interest after the date of the suit unless the rate is "usurious" (324).

37. The possibility of avoiding delay in suits and in realisation of decrees should be examined and if necessary the number of judges should be increased (325).

38. Judges should be armed with greater power to prevent and punish any abuse of the facilities provided by law (326).

39. The ex-proprietary or occupancy tenant should be given the right to mortgage (but not otherwise transfer) his holding, (1) for a period not exceeding twenty years, (2) only to a land mortgage bank or co-operative credit society; and the landlord's superior right should be recognised by giving him, in case of enforcement of security by sale, the first right to purchase the equity of redemption.

But it is impossible to give a statutory tenant even a restricted right of transferability. Since, however, purchase of an occupancy right is legally permissible, a land mortgage bank should be permitted to lend to a statutory tenant the money necessary for that purpose, on the security of the occupancy holding which he will thus obtain (333).

(N.B.—Recommendations concerning stamp duties and bills are made in Chapter XI. and those concerning the *taqavi* loans in Chapter VIII.)

Chapter VIII.—Possible remedies in the present system of agricultural credit.

40. The financial position of the peasant can be improved in only two ways: (a) by increasing his income; (b) by decreasing his expenditure:—

- (1) There are numerous small-scale occupations available to a peasant, either as a substitute for agriculture or as supplementary to it.

- (2) Emigration is another remedy, but the people themselves may be left to apply it.
- (3) Additional cultivation is desirable, but there is little fresh soil available in the province, especially in those areas where it is most required.
- (4) New money-making crops, such as fruit-growing, should be tried.
- (5) Intensive cultivation in the sense of growing better crops of *the same kind* has already yielded and is bound to yield good results (345).
- (6) Reduction in expenditure of a cultivator whose standard of comfort is miserably low can be effected in only one of two ways: (1) by borrowing less, especially for unproductive purposes; (2) by borrowing at lower rates. The best remedy is education—not merely literacy but the development of mental powers, and such education can best be imparted by the co-operative movement in which the leaders must come from the people, preferably from the peasants themselves (347—349).

41. In order to provide long-term credit, a land mortgage bank should be established based on a combination of co-operative and joint-stock principles. The bank's shares should be open to the public for subscription, but any person who may desire to borrow from it must first acquire an interest in it by purchase of its shares. There should be only one provincial land mortgage bank with a limited number of branches in important places, each operating in a separate area and agencies subordinate to each branch, wherever need for an agency exists (350—356).

42. The operation of the Agriculturists' Loans Act need not be confined to occasions of distress (357).

The administration of the Act can be freed from defects in the following ways:—

- (a) Preliminary enquiries about the need of *tagavi* loans should be conducted without avoidable delay by responsible officers and the recipients selected should, of course, be those whose need is greatest.
- (b) Distribution of *tagavi* should be prompt and not delayed till the time for its profitable spending has passed.
- (c) *Tagavi* may best be distributed through co-operative societies, *panchayats* and failing both of them through the land-lords.

(d) Recovery of *tagavi* advanced in times of distress should invariably be effected not in one instalment but in two, the second of which should be a full year from the first (358).

43. The Land Improvement Loans Act needs to be advertised, but if a land mortgage bank is instituted it should provide all the long-term credit that is required (359).

Chapter IX.—Organisation and finance of small rural industries.

44. There is a future for scientific fruit farming, but if it is ever to be developed, the Agricultural department must give the lead both by demonstration and precept (368).

45. Much has been done to improve poultry farming, but much more remains to be done in the way of propaganda and demonstration in the countryside (370).

46. There are great possibilities of the expansion and extension of various industries in the province, if advantage is taken of modern methods and improvements, especially the use of power. The Industries and Co-operative departments can render valuable service by making experiments, giving expert advice, obtaining suitable tools and advertising the wares (371—374).

47. The finance of small rural industries is not distinguishable from rural finance generally. The co-operative movement must include both within its scope (375).

Chapter X.—Organisation and finance of small urban industries.

48. Co-operative societies, both for the supply of credit, raw materials and tools and for the disposal of products are capable not only of increasing the prosperity of such industries as still flourish but of reviving those which are moribund, provided the artisans have first been educated in the principle of co-operation. This is a useful field of activity which should be explored by the Co-operative department (400-401).

49. The task of financing the co-operative societies of artisans, middlemen and *karkhanadars* must be entrusted to an industrial bank which, whatever its type, must sooner or later create branches at convenient centres and make agency arrangements in others (402—404).

50. The Arts and Crafts Emporium at Lucknow should be re-organised so that (1) it may serve as an intelligence bureau in commercial and technical matters to the industries themselves and to the trade; (2) it may assist in the introduction of approved designs prepared by the School of Arts and Crafts; (3) it may adequately advertise all artistic products and (4) it may act as the headquarters of a system of sale dépôts in all industrial centres of the province and possibly also in the major towns of other provinces and even abroad (405).

51. Advertisement of industries is essential but organisation must come first. Advertisement may follow when it is safe to advertise (406).

Chapter XI.—Indigenous finance.

52. Efforts should be made to *mend* and not *end* the indigenous bankers. The following lines of advance are open and it is for the bankers to decide by which road and at what speed they will move (459) :—

- (1) The transformation of indigenous bankers into private limited companies (460).
- (2) The amalgamation of the business of local indigenous bankers into joint-stock banks (461).
- (3) The establishment of what are known in Germany as "Commandit" principle banks (462-463).
- (4) The appointment of indigenous bankers as agents of joint-stock banks or of the Reserve Bank (464-465).
- (5) The formation of a co-operative bank of indigenous bankers (466).
- (6) The adoption of bill broking as an integral part of the indigenous banker's business (467).
- (7) The re-organisation of indigenous bankers on modern lines (468—471).

53. Efforts should also be made to regulate the moneylenders' operations and safeguard the interests of their clients; to do away with the moneylender is impossible (473) :—

- (1) Moneylenders should be induced to join co-operative societies on condition that they cease lending privately to the members of such societies (474, also 303).
- (2) Experiment may be tried of the formation of co-operative societies of moneylenders which should lend to the primary societies and not to individuals (475, also 302).
- (3) A scheme of licensing moneylenders is suggested but is open to several serious objections (476).
- (4) Legislation on the lines of the Punjab Regulation of Accounts Act is designed to prevent the preparation of irregular or dishonest accounts, but such accounts in the province are rare and in the existing circumstances of illiteracy etc., the legislation seems of doubtful value (477).
- (5) The village moneylender himself requires education. With the competition of new credit agencies as proposed elsewhere he is bound to mend his ways (478).

54. Miscellaneous recommendations :—

- (1) The use of bills of exchange—*muddati hundis*—should be encouraged by both bankers and banks (479).
- (2) The stamp duty on bills payable within six months after date should be reduced to the level of the duty on demand promissory notes; whilst bills payable within 30 days should become duty free (479).
- (3) The formation of a Provincial Bankers' Association is strongly recommended (479).
- (4) Joint-stock banks should allow indigenous bankers to overdraw for short periods on the security of equitable mortgages (479).
- (5) The central bank should be empowered to accommodate indigenous bankers by discounting their *hundis* either (1) at the same rate as the joint-stock banks, if they keep a minimum current account with the central bank or (2) at a slightly higher rate if they do not (479).
- (6) Various market practices relating to *hundis* should be standardized (479).
- (7) There should be no restriction, legal or customary, on the use of vernacular scripts (480).
- (8) Cheques and pass books should be issued in the vernacular as well as in English (480).

55. For the co-ordination of credit agencies a Central Bank, such as recommended by the last currency commission, with a branch in each province and an agency or sub-agency in each district is essential (481).

Chapter XII.—Investment habit and attraction of capital.

56. There appears at present to be neither need nor strong demand for a stock exchange (503).

57. In the matter of post office facilities :—

- (a) The present annual and maximum limits for savings banks deposits may be raised to a reasonable amount, not exceeding double the present figures;
- (b) the agency of joint-stock banks should be used on a commercial basis to sell post office cash certificates;
- (c) up to a maximum limit in any case, cash certificates should be made negotiable (519);
- (d) cash certificates should be widely advertised through village propaganda (520);

- (e) money order rates should not exceed double the Imperial Bank rates for remittances (521, also 509);
- (f) a rupee postal order of the same type as the sterling postal order should be introduced (522);
- (g) post office cheque accounts may be tried in places where modern banking facilities do not exist. (523);
- (h) travellers' letters of credit should be issued and their use encouraged (523);
- (i) the postal insurance scheme may be extended to rural areas, so long as private insurance companies are not there (524); but
- (j) no such suggestion should be given effect to as is likely to involve, on balance, further expense to the State (525).

58. The restrictions on currency transfers may be relaxed in two directions: (a) the treasury officer may be empowered to issue any number of currency transfers and supply bills to any number of applicants, up to a certain limit of amount over a certain period; (b) these documents may be issued also at such sub-treasuries as are located in centres of trade which possess no other remittance agency save the post office (526).

59. The issue of a gold saving certificate paid for in gold and redeemable either in gold or in legal tender money is recommended (528).

60. The existing banking facilities being unequally distributed, diffusion and not competition should be the aim in opening new banks or branches. In places where there is not sufficient business for a branch, temporary branches and periodical "counters" would be of great advantage (529—532).

61. Suitable banking legislation and the appointment of government bank examiners may prove at present possibly the best means of strengthening the banking system and stimulating the banking habit (533).

62. There should be local clearing houses in large towns and a large provincial clearing house at Cawnpore which should act as a country clearing house.

In the existing conditions of the country a clearing house might also act as a bill collecting agency (534).

63. The institution of the Reserve Bank is recommended, but if it is established it would modify several suggestions made above, viz. :—

- (a) the Reserve Bank will provide all clearing house facilities;
- (b) supply bills and currency transfers will cease to exist and the Reserve Bank will provide necessary remittance facilities;

(c) a branch or agency of an approved bank will come into existence in every place where there is a currency chest. The Reserve Bank will thus lead to the much desired diffusion of banking throughout the province (535).

Chapter XIII.—Miscellaneous.

64. *Tibetan trade.*—If the Bhotias could be organised under the co-operative system, they would have no difficulty in obtaining cheap and sufficient credit (551).

65. *Nepalese trade.*—What the traders in Nepal need most is not finance but protection from robbery. They should also be permitted to purchase land in Nepal (554).

66. *Timber trade.*—Licensed warehouses at suitable railheads would enable the contractors to get sufficient credit on the security of their stocks of timber (558).

67. *Board of Economic Enquiry.*—To provide the development departments with all facts and figures necessary to enable them to carry out their special duties and specially those connected with village reconstruction a Board of Economic Enquiry is urgently required in the province (562).

The Board should be a compact organisation with a permanent wholtime Chairman and Secretary and the following members viz., Directors of Industries and Agriculture, and Registrar of Co-operative Societies, either the Settlement Commissioner or an ex-settlement officer, a representative of the Finance department, one representative of each of the two Chambers of Commerce, two representatives of the five Universities, three non-official members of the Legislative Council, a joint-stock banker and an indigenous banker (563-564).

The Board should work mainly by sub-committees with power of co-option. The Board should receive a lump-sum grant-in-aid besides the pay of officers and staff (565-566).

(Signed) E. A. H. BLUNT,

Chairman.

G. S. UPADHYA.

RADHAKAMAL MUKERJEE.

B. T. THAKUR.

MOHAN LAL SAH.

MOHAN LAL.

LAKSHMI DAS.

(Signed) L. C. JAIN,

Secretary.

Dated August 1, 1930.

Alternative opinions by Dr. Radhakamal Mukerjee on certain points.

[Note:—These notes were received so late that it has been necessary to print them at the end of the volume instead of at the end of the appropriate chapters.]

I.—Indebtedness and the uneconomic holding.

Our returns of debt show that the majority of tenants and peasant proprietors in the province possess holdings which are below the minimum economic size necessary to support the cultivator and his family. These also indicate that holdings smaller than 5 acres bear a heavier burden of debt in relation to their capacity for repayment than bigger holdings. In the absence of definite figures showing separately the number of debt-free within each class of holdings such as those below or above 5 acres, to apply the average 46 per cent. of debt-free arrived at by lumping together holdings of different grades seems to me open to objection. The average will vary according to agricultural conditions, and caste and customs, but the most important factor in governing the proportion of debt-free is the size of the holding itself.

Working on the same basis and set of figures of the report, we obtain for the district of Lucknow, where our own estimate of debt-free is 37 per cent., the following data :—

Number of holdings in Lucknow district.

	Group I.	Group II.	Group III.	Group IV.	Total number.
Indebted amounting to 68 per cent of total.	701	320	94	8	1,123
Total ..	1,112	508	149	13	1,782

In the South Central tract which comprises Lucknow district, the average holding is 5 acres and the minimum economic holding is nearly of the same size. We can, therefore, conclude that the cultivators of the first group, representing 62·3 per cent. of the total number, can hardly make both ends meet, while those of groups II, III and IV, totalling 37·7 per cent., may be regarded as well-to-do. Accepting the figure that 37 per cent. of all the groups on the average are debt-free, we find that (a) of 37·7 per cent. of the well-to-do cultivators only 13 per cent. are free from debt, and (b) of 62·3 per cent. of the cultivators, possessing holdings at or below the minimum economic figure, a maximum of only 23 per cent. can be free from debt. Lucknow is less prosperous than many Oudh districts and there is probably a large

amount of litigation, but Lucknow no doubt offers far better opportunities of subsidiary non-agricultural occupation as well as vegetable gardening than many districts of the province. If Lucknow cannot show a percentage of debt-free due to subsidiary employment of more than 23 per cent., it is doubtful whether 26 per cent. of the small holders of the province at or below the minimum economic figures are free from debt "by reason of subsidiary occupations," (paragraph 192).

Our own statistics of debt-free, as has been pointed out in the report, "are generally smaller than the settlement figures"; while some of the intensive surveys of villages show also considerably smaller figures. And thus 46 per cent. of debt-free on an average for all grades of holdings for the province due to subsidiary employment and other factors, appears to me too high an estimate, particularly for undersized holdings.

Besides Table V (Indebtedness according to size of holdings) appended to Chapter IV shows that the number of indebted on holdings less than 5 acres actually forms more than 50 per cent. of the total number of indebted tenants and peasant proprietors. While 56 per cent. of all tenants and peasant proprietors possess holdings either at or below the minimum economic figures.

It is also doubtful whether a considerable proportion of these smaller holders possess some subsidiary non-agricultural occupation. The Census statistics show that the number of cultivators who have some subsidiary occupation to supplement their resources varies considerably in different parts of this province. Excluding the Gorakhpur division, the proportion in the province is only 11.5 per cent. For the province as a whole the number of cultivators who have subsidiary occupations is 1,579 per 10,000 or roughly 16 per cent. The corresponding figure for farm hands is 1,940 or 19 per cent., but only 6 per cent. of the farm hands cultivate. Except in the case of artisans who combine their crafts with farming many of these subsidiary occupations are not remunerative enough under the existing system of communications and marketing, while all share the vicissitudes of agriculture in favourable years when those who possess uneconomic holdings, and who can hardly keep their heads above water in ordinary years are in distress. Thus not only the relative burden of debt but also the number of the indebted are the largest among those small holders whose holdings are below the size of the economic unit, while freedom from debt in the case of many small holders simply implies that they are not credit worthy.

Among those who are debt-free and who are excluded from our returns are the landless classes, whose number is not inconsiderable:

They may be debt-free though they are far worse off than many in debt. As agriculture is their chief if not only occupation, they cannot be disregarded in the study of agricultural indebtedness. In fact one of the surest indices of the burden of debt on peasant proprietors and tenants is furnished by the proportion of landless classes in a country.

The differences between the size of the average holding and the minimum economic holding, tract by tract, as given in chapter II, paragraphs 56—64, seems to me the best rough and ready measure of the relative proportion of indebtedness. This difference is on the increase in most districts due to increase of population and progressive fractionalization of holdings. In one district 37 per cent. of holdings are now $2\frac{1}{2}$ acres or less. Sixty years ago the figure was 23 per cent. The minimum economic holding lies there between 4 and 5 acres. On the whole the correspondence between the number of holdings below the minimum economic unit and proportion of indebtedness is, in my opinion, much closer than appears in the chapter.

In this connection it may as well be pointed out generally that the question of agricultural indebtedness is to be studied as a whole in its entire social setting. It involves the consideration of the following:—

- (i) how far agricultural indebtedness is really due to agricultural operations proper, or to extra-agricultural causes, such as social and religious customs;
- (ii) how far agricultural indebtedness is reduced not by agricultural earnings proper or by earnings from non-agricultural sources, such as the pursuit of select or regional handicrafts, small trade etc.

In the case of (i) it is difficult to divorce the labourer from his home, family and other social ties and obligations which make up his very life. As regards (ii) it only demonstrates that agriculture as it is pursued and left to itself is not self-supporting. The relief coming from non-agricultural pursuits should not obscure the central fact of agricultural indebtedness.

II.—*The Bundelkhand Land Alienation Act.*

In my view the Bundelkhand Land Alienation Act has somewhat reduced credit for the cultivator, but has at the same time reduced his extravagance. The supersession of the non-agricultural moneylender by the agricultural moneylender does not make the situation worse. Besides, cases of transfer of land from one agriculturist to another are not yet numerous enough in Bundelkhand to show the full economic consequences of the new legislation. On the other hand, in most of

the districts of the United Provinces, the economic conditions under the existing system of free transfer are quite evident and established. In Budaun, for instance, the figures supplied by the Settlement Officer show that the hereditary cultivator is being fast weeded out by a non-cultivating class.

			Percentage of the cultivated area.	
Year.			Property held by	
			Thakurs.	Vaishyas.
1835	..	..	36.0	9.78
1895	..	..	27.53	15.58
1925	..	..	21.85	19.99

This expropriation cannot always be laid at the door of extravagance for which the hereditary cultivator should forfeit sympathy. With fear of ejection from his holding, he fast loses all interest in the soil in which he was rooted, and becomes a mere tenant-at-will or a sub-tenant, who becomes indifferent to the land which eventually deteriorates for want of manure and capital. On the other hand, the prospects of the land are not brighter under its new owner, who is out of touch with the soil both by taste and tradition. He is at best a second-hand cultivator interested in monetary returns on the debt, which has brought him the land.

Throughout the province the professional moneylender who thus finds himself a landlord has not shown any marked eagerness to improve the land by expenditure and better methods. It is also found that the process of expropriation is slower with moneylenders who are agriculturist *zamindars* than with others. In Meerut and Rohilkhand divisions where the land grows valuable money crops, there has been greater transfer of land to non-agriculturist moneylenders, than elsewhere in the province. Such transfer may ultimately lead to a diminution of the share of the agriculturist classes in the benefits of irrigation, and generally speaking, in the increased value of land due to improvements in recent years. Thus there is a tendency towards a decrease of output from land over and above general social unsettlement and discontent caused amongst the expropriated. Nor does any restriction on transfer "run counter to all accepted principles regarding rights of ownership". In fact the general trend of modern agrarian legislation in Central and Eastern Europe has been to impose restrictions on mortgage, transfer or sale of small holdings created or reconstituted since the war in different countries. The keynote of modern agrarian policy has been the protection of the small cultivator through measures securing inalienability and undivisibility of holdings.

I do not agree with the statement that the introduction of a Land Alienation Act in any other part of the province "would have most undesirable and even dangerous results". On the other hand, I am of opinion that the increase of transfer of holdings from agricultural to non-agricultural classes is itself a menace to agriculture, and may, if unchecked, lead to serious agrarian unrest. This justifies, in my view, at least a further and fuller enquiry on the subject with the object of obtaining more recent and complete data than have been available for the Committee as indicated in the report in an earlier chapter (p. 128, para. 248).

There is a strong case for improved land legislation to protect agriculture from some of the evils arising from easy transfer of land. The experience of western countries and also of some parts of India shows that restriction of lease, mortgage, or sale, though it may temporarily mean an abridgement of credit for the cultivator, does not ultimately affect the prospects of agriculture. There is on the whole a greater balance of good from the principle of keeping the cultivator to his soil and holding as the basis upon which other necessary legal and economic adjustments should be built up. Both thrift as well as stabilised interest of the cultivator in his holding gradually improve credit and establish it on firmer foundations. Unrestricted transfer in the face of a progressive fractionalization of holdings provides the opportunity for the non-agriculturist moneylenders. The unprotected cultivator whose land is below the minimum economic figure—and the majority of tenants and proprietors of the province possess non-economic holdings—, forces up credit and does good neither to himself nor to his land. On similar grounds, besides judicious restrictions on transfer, the use of sub-leases by tenants as a substitute for usufructuary mortgages, which is fairly common in the province, is to be effectively checked. The evasion of the law should, in my view, be prevented by more drastic provisions such as those embodied, for instance, in the Central Provinces Tenancy Acts.

III.—*Board of Economic Enquiry.*

With regard to the composition of the Board of Economic Enquiry. I suggest that the representation of the universities be increased from two to five members, giving to each university in this province permanent representation on the Board. The university departments in Economics, Sociology and Commerce are directly organising investigations and opening up fields of enquiry on topics that would come within the purview of the Board, and a closer association and co-operation between them and the Board will imply a considerable saving both in labour

and in cost. The Banking Enquiry Committee has already shown the direction in which such co-operation may be profitably arranged by utilising the results of some of the field work and special surveys initiated and organised by the universities and some of the universities, again, are specialising in certain fields of work and collecting valuable and varied economic material, which the Board can very well utilise, and they should not exclude each other in the matter of representation. Indeed, the present tendency is to bring the universities into closer connection with the technical departments of administration so as to promote a more fruitful combination of theory and practice, science and experience.

RADHAKAMAL MUKERJEE.

It is impossible to allow this note* of Dr. Mukerjee to pass without comment. Unfortunately it reached the committee so late that it has been impossible for me to consult my colleagues regarding it, and I must accordingly take the task of comment upon myself.

2. As I understand the note, Dr. Mukerjee dissents from the view that the number of debt-free amongst those tenants who possess uneconomic holdings (a group corresponding roughly to the group of tenants possessing holdings of less than five acres) is the same or much the same as the number of debt-free in other groups. He apparently considers that it ought to be considerably less. It is, however, possible to quote actual figures in opposition to this view. The settlement officers in three districts (one of which is Lucknow, the district which serves Dr. Mukerjee as an example) actually extracted the number of debt-free by groups; and in two cases out of the three (including Lucknow), the proportion of debt-free in the lowest group is actually larger than in any other, as it also is in all the three districts taken together. The figures will be found in evidence, Vol. II, pages 9 and 10. In Lucknow, against an average for all groups of 57, the number of debt-free in the lowest group is 66.

Dr. Mukerjee also refers to the census statistics in support of the view that the subsidiary occupation is not so common as the argument in the report suggests. I have personal knowledge of census statistics, having myself been Census Superintendent in 1911; and I put forward certain points of which doubtless Dr. Mukerjee is not aware, which are opposed to his view.

3. The figures which he quotes are those of persons whose primary occupation is agriculture and whose secondary or subsidiary occupation is non-agricultural. But these most certainly do not represent the total number of agriculturists who also possess a non-agricultural occupation.

* Indebtedness and the uneconomic holding, pages 353-5.

(1) His figure omits all those whose primary occupation is non-agricultural, and whose secondary occupation is agriculture. The figures can be obtained from table XVII in the census statistics, where they are shown in separate columns under the head "partially agriculturists". This means a considerable addition to the number of tenants and small proprietors who have two occupations.

(2) There are two principal classes of agriculturists, namely the rent-receiver and the cultivator. Rent-receivers, of course, consist mainly of landlords, but they also include tenants who have sublet a portion of their lands; and the total number of agriculturists who either let or sublet a part of their land whilst cultivating the rest is considerable. Among such persons there are undoubtedly some, and possibly many, who also have a third non-agricultural occupation. Since agriculture in any form is regarded as the most respectable of occupations, it is certain that in a case where a man had two agricultural and one non-agricultural occupation, he would return the first two as his primary and secondary occupations and omit the third altogether,—whichever was as a matter of fact most profitable. It follows, therefore, that in many instances the non-agricultural or subsidiary occupation is omitted altogether.

(3) The census figures all relate to individuals. We, however, are dealing in terms of tenants or holdings. Every tenant has his family, every holding supports more people than the tenant himself. It is not, therefore, sufficient merely to consider the subsidiary occupation of the tenant himself but all the subsidiary occupations of the family; and there is no means of extracting that information from the census statistics at all, as an example will make clear. Let us suppose, for instance, that a Chamar tenant with a holding of two acres has a family of a wife and two sons. Such a family might, and frequently would, pursue the following occupations :—

- (i) *Father*—cultivator; agricultural or general labourer; tanner and leather worker for his *jajmani*. Of this, in all probability the first two would be recorded and the third omitted.
- (ii) *Wife*—village midwife for her *jajmani*.
- (iii) *Eldest son*—servant of some kind, e.g. as a syce or grass-cutter; or labour.
- (iv) *Younger son*—cattle herd.

The primary occupation of this family would no doubt be cultivation of an (uneconomic) holding, but it would also have no less than five other occupations, of which one would probably not be recorded in the census tables at all, whilst the other three would be recorded, but under *entirely*

different heads. The wife would be shown (curiously enough) under class C—Public administration and liberal arts, sub-class VIII—professions and liberal arts, Order 48—medicine, group 172—midwives, vaccinators, etc. The eldest son would be shown under class D—Miscellaneous, sub-class X, and Order 52—domestic service, group 182—private grooms, coachmen, etc. The younger son would be shown under Class A—Production of raw materials, sub-class I—exploitation of animals and vegetation, Order ID—grazing of farm stock, group 14—herdsmen, shepherds, goatherds, etc. In other words, the subsidiary occupations of a *family* would often be shown in the census figures as the primary occupation of *individual members* of that family.

4. It is impossible, therefore, to base any conclusion regarding the total number of occupations subsidiary to agriculture on the census figures, and the views expressed on the subject in the text of the report are in my opinion understated rather than overstated.

E. A. H. BLUNT,

CHAIRMAN,

United Provinces Provincial Banking Enquiry Committee.

APPENDIX.

APPENDIX.

Standard questionnaire for provincial banking enquiry committees.

(The following memorandum is published in order to assist witnesses in the preparation of their evidence. It is not to be regarded as exhaustive, nor is it desired that each witness should necessarily attempt to deal with all the questions raised.)

I.—Agricultural credit and credit facilities for small industries.

1. Describe the present system by which the agriculturist in your district or province obtains finance—

- (a) for expenses during cultivation,
- (b) for capital and permanent improvements, and
- (c) for other special needs, *e.g.*, failure of monsoon, for land revenue, etc.

What are the rates of interest charged in your district or province in respect of advances, the period for which loans are taken, the nature of the security given and accepted (*e.g.*, standing crops, etc.), and other conditions attaching to the grant of such loans?

Describe the part played in agricultural finance by Government, the Imperial Bank of India, the Joint Stock Banks, Co-operative Banks, the Indigenous Banks and Bankers, professional moneylenders, merchants and dealers, and other organisations giving credit (*e.g.*, companies trading in fertilisers, etc.).

Can you give an estimate of the total amount of capital required for the various purposes stated above for your district or province?

State defects, if any, in the present system and the reasons for the existence of such defects. Do you suggest any remedies?

Is there co-ordination among the various credit agencies including Government, and is there scope for improvement in that direction?

2. Describe the present method of marketing principal crops in your district or province.

What in your opinion are the possibilities of forming pools and of co-operative effort generally in marketing produce?

Describe the credit facilities required for the financing of products during marketing and the facilities actually existing.

In regard to such facilities is there any special difference as between internal trade and foreign trade?

What is the part played by the different classes of banks and bankers and merchants and dealers during the process of marketing?

What are the existing facilities available to the public, including banks and bankers, for internal remittance?

State any defects in the existing system and any suggestions for improvement.

Describe the part played by negotiable instruments in the internal trade of the province.

Have you any suggestions to make for the more extensive use of bills (e.g., by reduction of duty on bills)?

What are the different classes of hundis current in your part of the country? What are the peculiarities of each. Please give sample wording.

Have you any suggestions for the amendment of the Negotiable Instruments Act by which the public and the bankers handling hundis might be better protected or benefited?

Are hundis emanating from your locality discounted in your local centre or are they sent to a provincial centre and discounted there, or are they held by middlemen, merchants or commission agents?

What different kinds of instruments of ownership of goods and produce (e.g., railway receipts) and documents are employed for raising money during the process of marketing?

Are any difficulties experienced in the use of these instruments and have you any suggestions to make with a view to removing those difficulties?

What in your opinion are the possibilities of operating licensed warehouses in India either on the lines of the system which exists in the United States of America or otherwise?

Do you think there is any need for Government assistance in the matter?

3. In your district what is the value of land per acre for different kinds of crops?

What are the factors affecting such value? In your reply, please distinguish between

(a) value of land in Government auction for non-payment of revenue;

(b) value of land in the event of sale by court decree;

(c) value of land in purchase by private negotiation.

4. Is there any legal impediment to mortgage of land and agricultural holdings in your province? Are there any land mortgage banks or agricultural banks in your province or any other banks for the provision of long term credit?

State what you know of their method of work and of raising capital.

If no such institution exists in the province, suggest the lines on which such institutions could be established and worked to the advantage of the landholders and tenants of your province.

Do you suggest any measures for

- (a) improvement in the record of rights and title of ownership so as to simplify reference, and to avoid possibilities of disputes and counterclaims by parties other than those who are the clients of the Bank,
- (b) simplification of the process of foreclosure and sale by the Mortgage Bank in the event of non-payment,
- (c) reduction of costs of reference to the record of rights and of registration of records and of the process at law so as to reduce the burden on the good constituents of the Bank in respect of charges incurred on account of defaulters?

Should the working capital of the proposed Mortgage Bank be derived largely from

- (a) deposits,
- (b) funds from central institutions, or
- (c) debenture bonds?

Should debenture bonds carry any Government guarantee either for principal or interest or for both?

If so, what measures would you suggest to secure Government against unnecessary loss?

On what terms should Agricultural Mortgage Banks raise monies under each of the above-mentioned heads, with or without Government guarantee, and on what terms should they lend out money so as to cover their expenses?

Please state any other suggestions for the adequate provision of long term credit against sound security.

5. In order to devise measures for the increase of credit facilities to the agricultural classes it is necessary to reach an estimate as accurate as possible of the existing indebtedness of these classes.

Do you know of any such estimate for a village or a district in your province, or for the whole province?

In what manner can such an estimate be obtained with reasonable accuracy?

In such an estimate please distinguish between—

- (a) the amount of debt with land as security which is in the form of a registered mortgage,
- (b) the amount of debt which is concealed in the form of a judicial sale to circumvent the provisions of Acts such as the Deccan Agriculturists Relief Act,
- (c) the amount of debt which is incurred against any other assets, such as the village house, ornaments, ploughs and other agricultural implements, crops and produce, or debt which is given on the general security of all the assets without a specific pledge.

Please state wherever possible the purpose for which the debt was incurred, such as

- (a) the repayment of earlier debts,
- (b) marriage and other social occasions,
- (c) famine and other kinds of distress,
- (d) payment of land revenue,
- (e) growth of the debt by compound interest, interest not having been paid,
- (f) seeds and manure,
- (g) improved agricultural implements,
- (h) sinking of wells and agricultural improvements.

Please indicate also to whom this debt is largely due and whether the creditors are Government, Banks, Co-operative Societies, or indigenous bankers and professional moneylenders.

State what you know of the rates of interest charged, the methods used for calculating it and for enforcing the payment of the debt.

Do you think a large number of people who are efficient farmers are being turned into tenants for a period, or tenants-at-will through the process of the enforcement of the old debts and landed property passing on into the hands of the creditors?

If this process is going on, does it take away from the actual cultivator the incentive to produce more and in an efficient and better manner?

6. Give some idea of the number of small subsidiary industries allied or supplemental to agriculture existing in your province, such as rice milling, dairy farming, *gur* making, garden produce, cotton ginneries, sugar refineries, hand spinning, etc.

Can you suggest methods by which any such industries could be encouraged and by which the producer might be enabled to get a better return for his produce?

Can you suggest any enterprises which may give employment to the farmer during seasons when he cannot make full use of his time on his farm and thus enable him to supplement his income and to raise his standard of living?

What would be the best method of securing working capital for such enterprises?

What financial machinery do you suggest for this purpose?

7. State what you know of the relations that exist between the Co-operative Banks and the other banks in the country, namely, the Imperial Bank of India, the Joint Stock Banks and the Indigenous Banks.

Describe any existing difficulties in the matter of finance in the case of Co-operative Societies both in regard to short and long term capital.

Can you give an estimate of the amount of extra capital required for financing the Co-operative movement in your district or province?

Is there any competition in your district or province between the Co-operative Banks and Joint Stock Banks?

If so, to what extent and in what direction?

Have you any views regarding the possibility and desirability of granting financial concessions in order to stimulate the growth of the Co-operative movement (*e.g.*, by extension of special exemption from income-tax to genuine Co-operative Societies, inclusion of debentures issued by Provincial Co-operative Banks in the list of trustee securities, etc.)?

II.—Indigenous Banking.

(*Note.*—By indigenous banking is meant all banks and bankers other than the Imperial Bank of India, the Exchange Banks, Joint Stock Banks and Co-operative Banks. It includes any individual or private firm receiving deposits, dealing in hundis or lending money.)

1. State what you know of the functions of the indigenous bank or banker in your district or province enumerating all kinds of business the bank or banker transacts.

2. How and to what extent does an indigenous bank or banker in your district or province assist in financing agriculture, trade and industry?

3. State what you know of the organisation of the indigenous banking system in your district or province with regard to

(a) the amount of capital invested,

(b) the volume of their business,

(c) their expenses, and

(d) the relations between one indigenous bank and another and between indigenous banks and other banks in the country, (*viz.*, the Imperial Bank of India, the Joint Stock Banks and the Co-operative Banks).

4. State what you know of the various forms of hundis and other credit instruments used by the indigenous banks and bankers and the extent of their use. Give sample copies of any of the hundis, promissory notes, deposit receipts, etc., used in your locality.

5. State what you know of the indigenous banker's methods of granting loans and allowing cash credits and the terms and nature of these loans and cash credits.

What are the means by which the indigenous banks and bankers provide themselves with funds to meet their demands?

What are the rates of interest allowed on various kinds of deposits received by them?

6. What are the rates of interest either in money or in kind which the agricultural community has to pay at present to the indigenous banker?

In what manner do you suggest these rates could be brought down by better organisation?

Would the reduction of such rates confer great benefit on the agricultural community and increase its resources thereby leading either to an improvement in the standard of living or enabling them to spend more on agricultural improvements, better agricultural implements, etc.?

7. Is there a prejudice in your locality against the indigenous bankers?

Are these bankers sufficiently protected in law?

Is there any legal or other facility which can be extended to them?

Are the dealings of this class of bankers with their clientele conducted on sound lines?

If not, indicate the existing defects, making suggestions for remedying them.

8. Would you suggest any means of making this class of bankers more serviceable to the community?

Could you suggest any means by which the indigenous banking system in India could be improved and consolidated?

Do you recommend any special facilities to be given to this class for this purpose?

What do you think would be the attitude of the indigenous banking community towards the introduction of any measures for regulating their operations and for giving publicity to the same?

9. After making allowance for the legal expenses, management charges, losses through default and losses through foreclosure can you give an idea of the net return to the indigenous banks and bankers on their capital?

10. Please state whether the indigenous banks and bankers are able to meet all demands for accommodation or whether they are obliged to refuse any either on account of the unacceptable nature of the security offered or owing to insufficiency of their working capital?

11. How in your opinion should the indigenous banking system be linked with the central money market and provincial capitals?

Would you suggest the establishment of a branch of a Joint Stock Bank, or a branch of a Central Reserve Bank, or a local bank with local directorate, in each district with which the indigenous banking system may be connected?

In what manner could such a bank inspire the confidence of the indigenous bankers and be able to utilise the local knowledge and experience of the latter?

How is the competition of such a bank with the indigenous bankers to be avoided?

12. Do you think there is a large amount of money in the districts in the hands of indigenous bankers which does not find employment throughout the year?

Do you think that owing to this cause any large amount of money is flowing to the provincial capitals either for long or for short periods?

Do you think any kind of improvement in the organisation of lending or borrowing can be made by which these funds instead of flowing to the provincial capitals would find remunerative employment in the districts and thereby benefit the districts?

III.—Investment habit and attraction of capital.

1. What are the existing banking resources in the province?

Can you state the amount of additional capital, if any, required?

What are the means or institutions in existence for encouraging savings and investment habit?

Are the public provided with full facilities for the investment of their savings?

Can the existing facilities be improved in any way or extended in the smaller interior places?

Can you give any useful information in regard to the habits of the people of India to invest in silver and gold?

2. Are Postal Cash Certificates popular in your district or province and can any steps be taken to increase their popularity?

Do present interest rates of Cash Certificates require revision and do existing terms of issue in any way need change?

Do Savings Banks afford all possible facilities to the public?

What classes of population resort to such forms of investment?

Can anything be done to attract other classes?

Have you anything to say regarding the alleged competition of Government with Banking institutions and Bankers in regard to deposits by their attractive rates on Postal Cash Certificates and Treasury Bills?

3. State the existing facilities for purchase and sale of Government securities afforded by Government, the Imperial Bank of India and other Banks. Are you in favour of granting any special facilities to the small agriculturists and the small investors of the country to take up some form of Government security? If so, state what special facilities you recommend?

State the existing facilities for purchase and sale of securities other than Government securities, afforded by the various financial agencies.

Can you indicate clearly the habits of various groups of people in your district or province with reference to monies which come into their hands by sale of produce or through any other cause? Where do they keep this money and for what purposes, and in what manner, do they use it?

Do the farmers lend to fellow agriculturists and on what terms? How do they invest surplus money in a prosperous year? Give any information you can regarding the amount, growth and distribution of capital among the indigenous population.

4. State what you know about the growth of cheque-habit.

What has been the effect of the abolition of stamp duty on cheques?

What classes of population use cheques? Have you any suggestions to make for further promoting the cheque-habit (*e.g.*, payment of Government servants and Bank employees above Rs. 100 by cheques)?

Have you any suggestions to make regarding the use of vernacular scripts in banking?

5. Do you support the view that the banking and investment habit in India is of very slow growth?

If so, to what causes do you attribute it?

Have you any suggestions to make regarding the various possible means of educating the people of the country to invest their savings in productive undertakings (*e.g.*, propaganda by Government in regard to Government loans for capital expenditure, etc.)?

As far as you know, what has been the result of the opening of new branches in recent years by the Imperial Bank of India?

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GLOSSARY.

<i>Abadi</i>	Habitation, group of houses.
<i>Ahmad</i>	Court clerk.
<i>Angochha</i>	Towel.
<i>Arhar</i>	..	..	..	Pulse, <i>cytisus cajan</i> .
<i>Arhat</i>	..	..	..	Commission agency, commission.
<i>Arhatia, arhatiya, arhtiya or arhti</i>	..	..	..	Commission agent, broker.
————— <i>bachcha</i>	..	..	..	Who introduces a <i>beopari</i> to a purchaser.
————— <i>pakka</i>	..	..	..	Proper commission agent.
<i>Asami</i>	..	..	..	Client.
<i>Badni ka satta</i>	..	..	..	<i>Khatti</i> speculations.
<i>Bahi</i>	..	..	..	Account book.
<i>Bahi khata</i>	..	..	..	Ledger, book entries.
<i>Baisakh</i>	..	..	..	Hindu month corresponding to April.
<i>Bajra</i>	..	..	..	A small millet, <i>pennisetum typhoideum</i> .
<i>Bania</i>	..	..	..	Trader, moneylender.
<i>Banjara</i>	..	..	..	A class of carrier especially of grain, grain dealer.
<i>Beejak</i>	..	..	..	Invoice.
<i>Behwari</i>	..	..	..	Creditor, moneylender.
<i>Be-iman</i>	..	..	..	Faithless, dishonest.
<i>Bejhar</i>	..	..	..	Mixed grain.
<i>Beopari</i>	..	..	..	A dealer, trader, moneylender.
<i>Bhang</i>	..	..	..	Dried leaves of the hemp plant.
<i>Bisaria</i>	..	..	..	Grain-lender.
<i>Bohra</i>	..	..	..	A caste; trader.
<i>Brinjal</i>	..	..	..	Egg plant.
<i>Brit</i>	..	..	..	See <i>jajmani</i> .
<i>Chambeli</i>	..	..	..	Jasmine.
<i>Charas</i>	..	..	..	Resinous matter formed on the flowering tops of the female hemp plant and collected separately.
<i>Chhattak</i>	..	..	..	1/16th seer.
<i>Chhut</i>	..	..	..	Rebate.
<i>Chikan</i>	..	..	..	Embroidered cloth.
<i>Chittha</i>	..	..	..	Rough account.
<i>Dafar kharch</i>	..	..	..	Office expenses.
<i>Dallal</i>	..	..	..	Broker.
<i>Darohani hundi</i>	..	..	..	Sight bill.
<i>Darwan</i>	..	..	..	Porter.
<i>Dast girda</i>	..	..	..	Literally "hand loan", loan secured by a verbal promise.
<i>Deodar</i>	..	..	..	The Himalayan cedar, <i>cedrus libani</i> .

<i>Deorha</i>	..	..	One and a half times.
<i>Dharamchala</i>	..	..	Rest-house.
<i>Dharmada</i>	..	..	Charity.
<i>Dharna</i>	..	..	Method of dunning.
<i>Dhoti</i>	..	..	Loin cloth.
<i>Doanni</i>	..	..	Two anna bit.
<i>Ekha</i>	..	..	A one-horse cart.
<i>Fagir</i>	..	..	Ascetic, beggar.
<i>Fagirs' akhara</i>	..	..	Group of <i>fagirs</i> under a leader.
<i>Ganja</i>	..	..	The dried flower heads of the female hemp plant from which the resin has not been removed.
<i>Ganik bhulai</i>	..	..	Opening of the purse.
<i>Garha</i>	..	..	Coarse cloth.
<i>Ghara</i>	..	..	Pitcher.
<i>Ghas</i>	..	..	Clarified butter.
<i>Gorait</i>	..	..	A village menial who works for the <i>zamindar</i> .
<i>Goshala</i>	..	..	Home for cows.
<i>Gota</i>	..	..	Gold and silver thread work.
<i>Gotawala</i>	..	..	Dealer in <i>gota</i> .
<i>Gumashla</i>	..	..	Agent.
<i>Gur</i>	..	..	Unrefined Indian sugar, jaggery.
<i>Haisiyat</i>	..	..	Financial condition.
<i>Handi</i>	..	..	Small earthen vessel.
<i>Harka, Harkia or Haria</i>	..	..	A gang of wandering <i>nsurers</i> .
<i>Hakh udhar</i>	..	..	See <i>dast gurma</i> .
<i>Holi</i>	..	..	Hindu festival.
<i>Hundi</i>	..	..	Bill of exchange.
<i>Itr</i>	..	..	Otto or <i>attar</i> , essence of rose or other flower.
<i>Jajmani</i>	..	..	Circle of clients.
<i>Jhil</i>	..	..	A marsh, shallow lake.
<i>Juar</i>	..	..	The large millet, <i>andropogon sargham</i> .
<i>Kachcha arhatia</i>	..	..	See under <i>arhatia</i> .
<i>Kakar</i>	..	..	Water carrier.
<i>Kamdani</i>	..	..	Embroidery or embroidered cloth.
<i>Kans</i>	..	..	A coarse, deep-rooted grass weed, <i>saccharum spontaneum</i> .
<i>Kapas</i>	..	..	Cotton with seed still adhering, unginned cotton.
<i>Karchop</i>	..	..	Embroidery.
<i>Karda</i>	..	..	Dust.
<i>Karkhana</i>	..	..	Workshop.
<i>Karkhanadar</i>	..	..	Master artisan.
<i>Karta</i>	..	..	Agent, manager.
<i>Kartik</i>	..	..	Hindu month corresponding to October.
<i>Kashikar</i>	Cultivator.
<i>Katuti</i>	Discount.
<i>Katha</i>	Sacred recitation.

GLOSSARY.

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Khapdoli	Dealer in sugar.
Kharif	Cold weather harvest.
Khashtis	A sweet scented grass root, <i>andropogon puricatum</i> .
Khatti .. ..	..	..	Grain pit.
Khesat .. ..	..	..	A record of proprietary rights.
Khudkhat .. ..	..	..	Zamindar's own cultivation.
Kolha .. ..	..	..	Pressing machine.
Kothe .. ..	..	..	Barn.
Kothi .. ..	..	..	Business firm.
Kothival or kothival sarraf	..	..	Big banker.
Kuar .. ..	..	..	Hindu month corresponding to September.
Lapdhogan .. ..	..	..	Cartman.
Lihaf .. ..	..	..	Quilt.
Mahajan .. ..	..	..	A creditor, banker, moneylender.
Mandi .. ..	..	..	Market.
Muddati hundi .. ..	..	..	Usance bill.
Munim .. ..	..	..	Agent, clerk.
Nazrana .. ..	..	..	Present, brokerage, double option.
Padhan .. ..	..	..	Village headman.
Painth .. ..	..	..	Periodical market.
Palka arhatia .. ..	..	..	See under <i>arhatia</i> .
Palladari .. ..	..	..	Porterage.
Panchayat .. ..	..	..	Literally a council of five. Used to describe an association of any number of persons instituted for objects of an administrative or judicial nature.
Panchayat sarrafu .. ..	..	..	See <i>sarrafu panchayat</i> .
Panch .. ..	..	..	Member of a <i>panchayat</i> .
Patti .. ..	..	..	Share.
Pattidar .. ..	..	..	Co-sharer, petty landholder.
Pheriwala .. ..	..	..	Peollar, hawker.
Purdah .. ..	..	..	Veil.
Purdanashin .. ..	..	..	Lit. observing <i>purdah</i> ; woman who lives in seclusion.
Purohiti .. ..	..	..	Priestly dues.
Qist .. ..	..	..	Instalment, method of lending on the instalment system.
Qistbandi .. ..	..	..	Instalment system.
Qistia .. ..	..	..	Moneylender lending on the instalment system.
Qistwala .. ..	..	..	See <i>qistia</i> .
Rabi .. ..	..	..	Hot weather crop.
Ram Lila .. ..	..	..	The anniversary of Rama's victory over Ravan, a festival.
Rojaki .. ..	..	..	Daily, a kind of <i>qist</i> .
Rosai .. ..	..	..	See <i>rojaki</i> .
Sahu .. ..	..	..	See <i>sahukar</i> .
Sahukar .. ..	..	..	Lit. honest man, moneylender, banker.
Sahukari .. ..	..	..	Banker's business.

<i>Salami</i>	..	..	See <i>nassams</i> .
<i>Sann</i>	..	..	Hemp, <i>crochioria fentea</i> .
<i>Sarrafi</i>	..	..	Banker.
<i>Sarrafs panchayat</i>	..	..	Banker's council of five.
<i>Sarraft</i>	..	..	Banker's script.
<i>Sawai</i>	..	..	One and a quarter times.
<i>Shradha</i>	..	..	Hindu ceremony in honour of the departed spirits of dead relatives.
<i>Singharu</i>	..	..	Walnut.
<i>Sipahi</i>	..	..	Orderly.
<i>Sup</i>	..	..	A coarse sieve used for winnowing grain.
<i>Surahi</i>	..	..	Earthen pitcher.
<i>Talukdar</i>	..	..	A landlord in Oudh with special rights.
<i>Tarai</i>	..	..	Lowlands, submontane tract.
<i>Taqavi</i>	..	..	State loan for agricultural purposes.
<i>Tat</i>	..	..	Sacking.
<i>Taula</i>	..	..	Weighman.
<i>Tola</i>	..	..	1/5 ohhattak.
<i>Toshakhann</i>	..	..	A store-room for valuable articles, treasure house.
<i>Waqf</i>	..	..	Gift of property.
<i>Zamindar</i>	..	..	Landlord.
<i>Zamindari</i>	..	..	Proprietorship of land.
<i>Zardozi</i>	..	..	Gold and silver work.

